

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name	County
Fiscal Year End	Opinion Date	Date Audit Report Submitted to State	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).


YES
NO

Check each applicable box below. (See instructions for further detail.)

1. ☐ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☐ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☐ ☐ The local unit has adopted a budget for all required funds.
5. ☐ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☐ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☐ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☐ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☐ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☐ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☐ The local unit is free of repeated comments from previous years.
12. ☐ ☐ The audit opinion is UNQUALIFIED.
13. ☐ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☐ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☐ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input type="checkbox"/>			
The letter of Comments and Recommendations	<input type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name)		Telephone Number		
Street Address		City	State	Zip
Authorizing CPA Signature 	Printed Name		License Number	

Comprehensive Annual Financial Report
City of Grosse Pointe Farms, Michigan
For the Fiscal Year Ended June 30, 2007

City Council

James C. Farquhar - Mayor

Charles S. "Terry" Davis III

Joseph T. Leonard

Douglas F. Roby

Therese Joseph

Peter W. Waldmeir

Louis Theros

Shane L. Reeside - City Manager

John Modzinski - City Controller/Treasurer

Audit Committee

Charles S. "Terry" Davis III

James C. Farquhar

Louis Theros

City of Grosse Pointe Farms, Michigan

Contents

Introductory Section

Letter of Transmittal	i-ix
GFOA Certificate of Achievement	x
Organizational Chart	xi

Financial Section

Report Letter	1-2
Management's Discussion and Analysis	3-7

Basic Financial Statements

Government-wide Financial Statements:	
Statement of Net Assets	8
Statement of Activities	9-10

Fund Financial Statements:

Governmental Funds:

Balance Sheet	11
Reconciliation of Fund Balance to the Statement of Net Assets	12
Statement of Revenue, Expenditures, and Changes in Fund Balances	13
Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	14

Proprietary Funds:

Statement of Net Assets	15
Statement of Revenue, Expenses, and Changes in Net Assets	16
Statement of Cash Flows	17

Fiduciary Funds:

Statement of Net Assets	18
Statement of Changes in Net Assets	19

Notes to Financial Statements	20-40
-------------------------------	-------

Required Supplemental Information

Budgetary Comparison Schedule - General Fund	41
Note to Required Supplemental Information	42
Pension System Schedule of Funding Progress	43
Schedule of Employer Contributions	44-45

City of Grosse Pointe Farms, Michigan

Contents (Continued)

Other Supplemental Information

Nonmajor Governmental Funds:	
Combining Balance Sheet	46-47
Combining Statement of Revenue, Expenditures, and Changes in Fund Balances	48-49
Budgetary Comparison Schedule - Nonmajor Special Revenue Funds	50-52
Fiduciary Funds:	
Combining Statement of Net Assets	53
Combining Statement of Changes in Net Assets	54
Agency Fund - Statement of Changes in Assets and Liabilities	55

Statistical Section

Financial Trends

Net Assets by Component	56
Changes in Net Assets	57-58
Fund Balances of Governmental Funds	59
Changes in Fund Balances of Governmental Funds	60

Revenue Capacity

Property Tax Levies and Collections	61
Assessed Taxable Values	62
Property Tax Rates - Direct and Overlapping Governments	63
Principal Property Taxpayers (Major Taxpayers)	64

Debt Capacity

Ratios of Net General Bonded Debt Outstanding	65
Ratios of Outstanding Debt by Type	66
Direct and Overlapping Governmental Activities Debt	67
Legal Debt Margin	68
Pledged Revenue Coverage	69

Demographic and Economic Information

Demographic and Economic Statistics	70
Principal Employers (Major Employers)	71

Operating Information

Full-time Equivalent Government Employees by Function	72
Operating Indicators by Function	73
Capital Asset Statistics by Function	74

Introductory Section



City of Grosse Pointe Farms

90 Kerby Road, Grosse Pointe Farms, Michigan 48236-3161

phone 313 885.6600 fax 313 885.0917

20 December, 2007

To the Honorable Mayor and City Council
City of Grosse Pointe Farms
Grosse Pointe Farms, Michigan 48236

With this letter, we transmit the City of Grosse Pointe Farms' Comprehensive Annual Financial Report (CAFR) for the fiscal year which ended June 30, 2007. This report has been prepared pursuant to, and in compliance with State statutes, which require the City to publish a complete set of financial statements within six months of the close of each fiscal year. These statements are in compliance with generally accepted accounting principles (GAAP) and audited in accordance with generally accepted auditing standards. This transmittal letter is designed to complement the Management's Discussion and Analysis (MD&A) section of this report and should be used in conjunction with it. The MD&A immediately follows the report of the independent auditors.

The financial statements have been prepared by the City Controller's Department for the purpose of disclosing the City's financial condition to its residents, elected officials, and other interested parties. Management assumes full responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures.

The City of Grosse Pointe Farms' financial statements have been audited by Plante & Moran, PLLC. The purpose of an independent audit is to provide reasonable assurance that the financial statements are free of material misstatement. The independent audit involves examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The audit concluded that there was a reasonable basis for rendering an unqualified opinion that the City of Grosse Pointe Farms' financial statements for the year ended June 30, 2007 are fairly presented in conformity with GAAP. Plante & Moran, PLLC's report is presented as the first component of the financial section of this report.

The Comprehensive Annual Financial Report is presented in three sections: introductory, financial, and statistical. The introductory section includes this transmittal letter and the City's organizational chart. The financial section includes the basic financial statements and the combining and individual fund financial statements and schedules, as well as the auditor's report on the financial statements and schedules. The statistical section includes selected financial and demographic information, generally presented on a multi-year basis.

This report includes all funds of the City. The City provides a full range of services including police and fire protection, sanitation services, recreational activities, parks, construction and maintenance of streets and infrastructures, and the operation of a water utility system.

ECONOMIC CONDITION & OUTLOOK

The City of Grosse Pointe Farms is an affluent, suburban community located in the northeast corner of Wayne County and nestled among its four Grosse Pointe neighbors between the City of Detroit on its west and Lake St. Clair on its east. Its population of 9,764 is distributed among almost 3,900 households, having a median household income of \$107,624 and an average per capita income of \$41,872. The median value of an owner-occupied residence in the City is \$295,100. The labor force is composed largely of managerial and professional personnel, of which over 60% has a graduate or a post graduate degree. The unemployment rate among Farms' residents is less than 2%.

The City is ideally situated in relation to major transportation routes, including I-94 and I-696. Its location along Lake St. Clair provides a scenic and recreational asset of indeterminable value. The reputation for excellence of the Grosse Pointe Public School System is widely recognized and draws families to the community. But more importantly, the City itself is committed to preserving and enhancing the viability of the community, its history and heritage, the quality of its housing stock, the repair and replacement of its infrastructure, the safety and welfare of its citizens and visitors, the aesthetics of its environs, the provision of cost efficient services, and the special enhancements that make a city a community.

The state of Michigan continues to be in an economic downturn. Approximately 6 percent of the City's total revenues come from sales tax that is collected by the State and shared with local units of government. Due to reductions in statewide collections of state taxes, the state government has retained a high portion of the sales tax in order to balance its own budget. This has resulted in a decrease in state-shared revenue in the current year, and further reductions are being anticipated by the City for the near future.

More than most communities in the state, Grosse Pointe Farms' reliance on state-shared revenue is a relatively small portion of the City's budget. The residential tax base makes up almost 95% of the tax roll or 70% of the City's total revenue. The impact of a weak Michigan economy has resulted in more homes on the market, for longer periods of time. This has the potential of lowering home values which impacts State Equalized Value (SEV). Fortunately, most homes have a taxable value that remains well below the SEV. For these properties, the City will continue to have the ability to raise the taxable value by the Headlee rate of inflation.

In conclusion, the economic outlook for the City of Grosse Pointe Farms continues to be good. The City has maintained a strong financial position as a result of modest gains in property tax receipts, which are generated by the continued strength of the local economy and City Council's and management's prudent budgeting practices. It should be noted that a continued economic downturn will put further strains on Michigan communities.

MAJOR INITIATIVES

An important initiative for any fiscal year is securing and protecting the stabilization of the total fund balance position, while addressing current and future capital outlay requirements. Through a series of budgetary actions and careful control of expenditure requests, this initiative has been achieved. While reducing the tax rate each year over the past five years, the City has maintained the lowest operating millage in the Grosse Pointes. This has been accomplished while creating surpluses and increasing fund balance. With an accounting change adding \$317,904 to the beginning fund balance in FY 2002-2003, the beginning fund balance at June 30, 2003 of the General Fund totaled \$3,638,899. The City added \$240,418 to its fund balance in the General Fund in FY 2003-2004, \$194,398 in FY 2004-2005, and \$93,734 in FY 2005-2006. For FY 2006-2007, \$416,301 was added to the General Fund reserves, resulting in a balance of \$4,583,750, of which \$93,563 is reserved for inventories and prepaid items, \$2,042,035 is reserved or designated for future capital outlay, and \$2,448,152 is undesignated.

A second area of emphasis this past year was again our recreation infrastructure. Last year, the City saw the reconfiguration and expansion of the City's harbor at the Pier Park. With this project, the City is now offering boat wells of up to fifty-five feet in length, up from thirty-seven feet, and an additional forty-two wells to our residents. Also, most of the small harbor wells used cable to tie down the boats. Now all boat wells have their own finger pier, as well as upgraded water and electrical service. Also, the City put the finishing touch at the Pier Park's Community Building, reconfiguring and repaving the parking lot directly in front of the building.

With the success of the Community Building, expanded harbor and recreation programs, the park is seeing extensive use in the summer. However, park use wanes during the winter months. To take advantage of the extraordinary

setting during the winter, the City is working with the Grosse Pointe Farms Foundation to develop plans and raise funds for an outdoor refrigerated ice rink, platform tennis courts, and a small warming building/tennis house. These facilities will further enhance the first rate amenities at the Pier Park, which contributes to the desirability of Grosse Pointe Farms as a great place to live and raise a family.

Third, the City continues its aggressive refurbishment of its water and sewer system infrastructure. This year, the City focused the Water Plant itself, replacing most of the roof (\$403,287), new windows (\$157,830), and a new front stairway (\$142,561) complete with new water fountain. The projects were performed with approval of the Grosse Pointe Historical Society, as the building has been declared a historical land site by the State of Michigan in 1993. These projects were paid largely by proceeds from a bond issue in December 2004.

And finally, our business districts continue to thrive. The City of Grosse Pointe Farms does not have a significant industrial base. Only approximately 4% of its state equalized value is commercial property, located primarily in two neighborhoods: a one-mile strip of shops on its border with Detroit along Mack Avenue and its central business district known as the "Hill" on Kercheval, between Muir Road and Fisher Road. Though these districts make up a small part of the overall community in terms of geography, they are vitally important to the quality of life our residents enjoy. Both districts have experienced resurgence and suffer few storefront vacancies today.

In addition to the accomplishments addressing infrastructure needs, the City continues to implement efficiencies in various operating departments in an ongoing effort to provide excellence in city services.

For the Future:

Another major asset of the City is its ability to provide water service to its citizens through its own water filtration plant. The City has consistently provided water to our residents and our customer, Grosse Pointe City, at a lower rate than charged by the Detroit Water and Sewage Department (DWSD). In addition, by having our own plant the City has benefited by excess capacity, which has prevented water restrictions during peak use in the hot summer months, and a backup generator that kept water service from being interrupted.

At the request of the City of Grosse Woods and the Village of Grosse Pointe Shores, the City is looking at the possibility of modifying the plant to add water service to these communities. The potential exists to share capital costs for plant updates and improvement, while further spreading out operational costs.

Last, pension and employee health care continue to significantly impact organizations in both the public and private sectors. The City's two retirement systems require increased contributions from the General Fund. Steps have been continued to increase funding contributions made by active employees and new employees are required to make contributions for postretirement healthcare benefits. In addition, the City has modified its healthcare plans to increase deductibles and co-pays and has started to self insure not only Blue Cross/Blue Shield medical insurance, but also prescription drug coverage.

Emphasis will continue on making government more efficient and effective, improving service levels while decreasing costs where possible. Reengineering government to make it more responsive to our rapidly changing world and to citizen and employee needs will be the test of future success.

FINANCIAL INFORMATION

Management of the City is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the City are protected from loss, theft, or misuse and to ensure that adequate accounting data is compiled to allow for the preparation of financial statements in conformity with generally accepted accounting principles. The internal control structure is designed to provide reasonable assurances that these objectives are met. The concept of reasonable assurance recognizes that: (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the valuation of costs and benefits requires estimates and judgments by management. Annually, the audit committee directs the external auditors to perform expanded internal control tests as part of their independent audit of the City's Comprehensive Annual Financial Report. This practice, which was implemented in 2003, results in the external auditor performing certain internal control tests which extend beyond the standard necessary for the formulation of their independent auditor's report. We believe the City is one of the few communities in Michigan that have adopted this practice.

Budgeting Controls

The object of budgetary controls is to ensure compliance with legal provisions embodied in the annual appropriated budget approved by the City Council. Activities of the General, Special Revenue, Capital Projects, and Debt Service Funds are included in the annual appropriated budget. The level of budgetary control (that is, the level at which expenditures cannot legally exceed the appropriated amount) is established at the line item detail level within an individual fund.

As demonstrated by the statements and schedules included in the financial section of this report, the City continues to meet its responsibility for sound financial management.

General Government Functions

The following schedule presents a summary of all governmental fund type revenues for the fiscal year ended June 30, 2007 and the amount of percentage of increases and decreases in relation to prior year revenues.

<u>Revenue Source</u>	<u>FY 2007 Amount</u>	<u>Percent of Total</u>	<u>Increase (Decrease) from 2006</u>	<u>Percent of Increase (Decrease)</u>
Property taxes	\$ 9,618,172	69.55%	\$ 246,157	2.63%
Licenses and permits	260,824	1.88%	(19,827)	(7.06%)
Federal sources	42,886	0.31%	25,361	144.71%
State sources	1,470,440	10.63%	80,185	5.77%
Charges for services	1,365,729	9.88%	9,604	0.71%
Fines and forfeitures	334,208	2.42%	(75,751)	(18.48%)
Interest	544,419	3.94%	(44,759)	(7.60%)
Other	<u>191,866</u>	<u>1.39%</u>	<u>29,277</u>	<u>18.01%</u>
Total	<u>\$ 13,828,544</u>	<u>100.00%</u>	<u>\$ 250,247</u>	

Property tax revenue increased only 2.6%, as the City reduced its tax rate for the fifth straight year. Without the tax rate decrease, property tax revenues would have increased by 1% more. We see this trend continuing in the next few years. Building permit revenue accounts for the decrease in licenses and permits. Revenue from federal sources increased significantly, as the City used block grant monies to repair curbs and sidewalks in eligible areas. Short-term interest rates peaked near the end of the fiscal year. However, during the course of the year, the yield curve began to invert, making longer-term investment less attractive. With Federal Reserve Bank rate cuts in the past few months flattening the yield curve, the City's investment strategy will be to lock in investment rates with a few longer-term investments to reduce interest rate risk, while maximizing the return on investments by investing in issues maturing from two to three years after the date of purchase, as well as longer term investments that have 'step-up' provisions in the rate of return.

The following schedule presents a summary of all governmental fund type expenditures for the fiscal year ended June 30, 2007 and the percentage of increases and decreases in relation to prior year amounts.

<u>Expenditures</u>	<u>FY 2007 Amount</u>	<u>Percent of Total</u>	<u>Increase (Decrease) from 2006</u>	<u>Percent of Increase (Decrease)</u>
General government	\$ 1,024,011	7.62%	\$ 59,687	6.19%
Public safety	4,385,382	32.62%	(3,262)	(0.07%)
Public works	2,826,241	21.02%	338,564	13.61%
Public service	664,948	4.95%	82,198	14.11%
Municipal court	259,534	1.93%	(13,401)	(4.91%)
Recreation and culture	1,162,040	8.65%	57,273	5.18%
Other	2,040,551	15.18%	344,032	20.28%
Capital outlay	764,220	5.68%	(4,971,072)	(86.68%)
Debt service	316,130	2.35%	117,477	59.14%
Total	<u>\$ 13,443,057</u>	<u>100.00%</u>	<u>\$ (3,988,504)</u>	

Significant paving projects for both the Major and Local Street Funds account for the increase in Public Works. Public Service continues its aggressive tree maintenance program by increasing spending by over \$100,000. Expanded services, programs, and operating hours at the Pier Park's new community center increased total operating costs for recreation and culture functions. Capital outlay declined because of the \$4.9 million harbor project. Debt service rose as the principal payments on the bonds for the Pier Park's community center, and interest payments on the harbor, have begun.

General Fund Balance

The total fund balance of the General Fund increased \$416,301, to \$4,583,750. A total of \$93,563 was reserved for inventories and prepaid items and \$2,042,035 was designated for subsequent years' capital outlay, leaving an undesignated fund balance of \$2,448,152.

Enterprise Operations

The City operates its own water supply and sewage pumping system. The operating revenue of the Water and Sewer Fund amounted to \$3,490,652, which is a decrease of \$171,382 from the preceding year. During the same period, operating expenses, excluding depreciation, were \$3,554,985. After providing for depreciation, the system experienced an operating loss of (\$404,959).

Pension Trust Fund Operations

The operations of the Public Safety Officers and General Employees' Retirement Systems produced sound returns during the fiscal year, posting a strong gain of approximately 17.6%. The systems' reserves increased \$3,876,091 (PSRS) and \$2,560,812 (GERS), respectively. The annual actuarial valuation is still strong, as the funding level for PSRS is approximately 113% and 88% for GERS.

Debt Administration

At June 30, 2007, the City had \$16,547,055 of general obligation debt outstanding. The net direct tax-supported debt is also \$16,547,055, and is the equivalent of \$1,694.70 per capita and represents about 2 percent of the City's state equalized valuation. Under current state statutes, the City's general obligation bonded debt issues are subject to a legal limitation based on 10 percent of total equalized value of real and personal property. As of June 30, 2007, the City's general obligation bonded debt was well below the legal limit of \$102,637,328.

Cash Management

Cash temporarily idle during the year was invested in demand deposits; certificates of deposit, physical and negotiable; bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States; and government pooled investment accounts. Yields on investments ranged from about 4.95% in pooled investment accounts, and 4.00% to 5.55% in CD's and obligations of the United States. The pension trust and nonexpendable trust funds' investment portfolios also include corporate bonds and stocks.

The City administers an active cash management and investment program. The primary goals are to maximize the amount of cash available for investments, to earn the maximum financial return on available funds, and to safeguard the invested principal. The City takes full advantage of temporary idle funds, which also includes vendor payments. To ensure the most competitive rates on investments, the cash resources of the individual funds, excluding certain fiduciary funds, are combined to form a pool of cash for investment.

Risk Management

The City has entered into a joint powers agreement with other Michigan units of government by joining the Michigan Municipal Liability & Property Pool for its general liability insurance, including auto and public official liability as well as property damage insurance. The City has also established a self-insured worker's compensation program with third-party administration and reinsurance coverage for claims over \$375,000.

OTHER INFORMATION

Independent Audit

The City Charter and state statutes require an annual audit of all accounts of the City by certified public accountants. The accounting firm of Plante & Moran, PLLC was selected by the City Council. The auditor's report on the basic financial statements and combining and individual fund financial statements is included in the financial section of this report.

Certificate of Achievement

The Government Finance Officer's Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Grosse Pointe Farms for its comprehensive annual financial report for the fiscal year ended June 30, 2006. The Certificate of Achievement is a prestigious national award, recognizing conformance with the highest standards for preparation of state and local government financial reports.

In order to be awarded a Certificate of Achievement for Excellence in Financial Reporting, the City published an easily readable and efficiently organized comprehensive annual financial report. This report satisfied both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. The City of Grosse Pointe Farms has received a Certificate for the last 14 consecutive years (fiscal years 1993-2006). We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement program's requirements, and are submitting it to the GFOA.

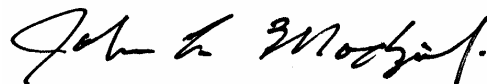
Acknowledgements

The preparation of this Comprehensive Annual Financial Report on a timely basis was made possible by the dedicated service of the accounting staff as well as various employees throughout the City. Our sincere appreciation is expressed to each of them as well as to the City Council for their consistent support throughout the year in matters pertaining to the financial affairs of the City.

Respectfully submitted,



Shane L. Reeside
City Manager



John L. Modzinski
City Controller/Treasurer

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Grosse Pointe Farms
Michigan

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2006

A Certificate of Achievement for Excellence in Financial
Reporting is presented by the Government Finance Officers
Association of the United States and Canada to
government units and public employee retirement
systems whose comprehensive annual financial
reports (CAFRs) achieve the highest
standards in government accounting
and financial reporting.



A handwritten signature in black ink, appearing to read "Thomas J. Flannery".

President

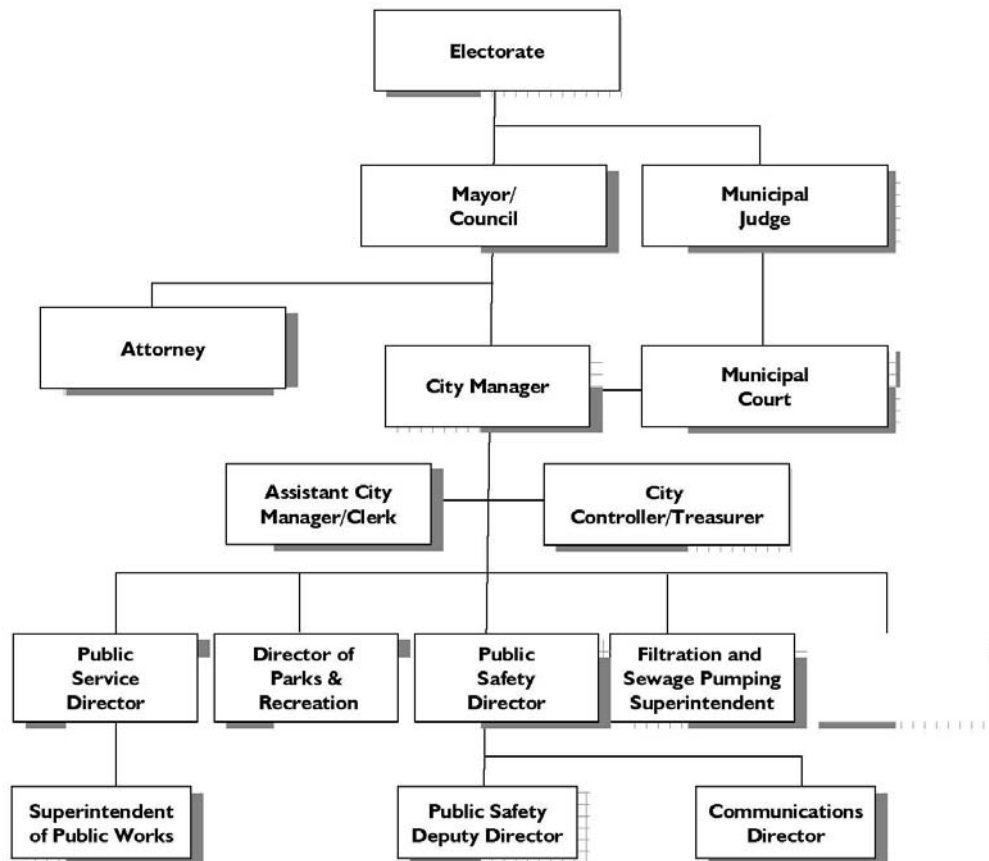
A handwritten signature in black ink, appearing to read "Jeffrey R. Enos".

Executive Director

City of Grosse Pointe Farms

June 30, 2007

Organizational Chart



Financial Section



Plante & Moran, PLLC
Suite 300
19176 Hall Road
Clinton Township, MI 48038
Tel: 586.416.4900
Fax: 586.416.4901
plantemoran.com

Independent Auditor's Report

To the Honorable Mayor and Members
of the City Council
City of Grosse Pointe Farms, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Grosse Pointe Farms, Michigan (the "City") as of and for the year ended June 30, 2007, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City as of June 30, 2007 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

To the Honorable Mayor and Members
of the City Council
City of Grosse Pointe Farms, Michigan

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The management's discussion and analysis, retirement system schedules of funding progress, and the budgetary comparison schedules, as identified in the table of contents, are not a required part of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. The introductory section, other supplemental information, and statistical sections, as identified in the table of contents, are presented for the purpose of additional analysis and are not a required part of the basic financial statements. The budgetary comparison schedules, combining balance sheets, and combining statements of revenue, expenditures and changes in fund balance have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. We have applied certain limited procedures to the management's discussion and analysis and the retirement systems schedules of funding progress, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it. The introductory section and statistical and continuing disclosure sections have not been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Plante & Moran, PLLC

December 20, 2007

City of Grosse Pointe Farms, Michigan

Management's Discussion and Analysis

Using this Annual Report

This annual report consists of a series of financial statements. The statement of net assets and the statement of activities provide information about the activities of the City of Grosse Pointe Farms (the "City") as a whole and present a longer-term view of the City's finances. This longer-term view uses the accrual basis of accounting so that it can measure the cost of providing services during the current year, and whether the taxpayers have funded the full cost of providing government services.

The fund financial statements present a short-term view; they tell us how the taxpayers' resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the City's operations in more detail than the government-wide financial statements. The fiduciary fund statements provide financial information about activities for which the City acts solely as a trustee or agent for the benefit of those outside of the government.

The City as a Whole

The following table shows, in a condensed format, the net assets as of June 30, 2007 compared to the prior year (in thousands of dollars):

	Governmental Activities		Business-type Activities		Total	
	2007	2006	2007	2006	2007	2006
Assets						
Current assets	\$ 8,626	\$ 8,811	\$ 1,790	\$ 1,925	\$ 10,416	\$ 10,736
Noncurrent assets:						
Restricted assets	-	-	-	645	-	645
Capital assets	<u>24,319</u>	<u>24,535</u>	<u>16,765</u>	<u>16,071</u>	<u>41,084</u>	<u>40,606</u>
Total assets	32,945	33,346	18,555	18,641	51,500	51,987
Liabilities						
Current liabilities	1,077	1,502	555	839	1,632	2,341
Long-term liabilities	<u>8,111</u>	<u>8,095</u>	<u>9,917</u>	<u>10,285</u>	<u>18,028</u>	<u>18,380</u>
Total liabilities	<u>9,188</u>	<u>9,597</u>	<u>10,472</u>	<u>11,124</u>	<u>19,660</u>	<u>20,721</u>
Net Assets						
Invested in capital assets -						
Net of related debt	17,476	17,642	6,848	6,523	24,324	24,165
Restricted	457	560	-	-	457	560
Unrestricted	<u>5,824</u>	<u>5,547</u>	<u>1,235</u>	<u>994</u>	<u>7,059</u>	<u>6,541</u>
Total net assets	<u>\$ 23,757</u>	<u>\$ 23,749</u>	<u>\$ 8,083</u>	<u>\$ 7,517</u>	<u>\$ 31,840</u>	<u>\$ 31,266</u>

City of Grosse Pointe Farms, Michigan

Management's Discussion and Analysis (Continued)

The City's combined net assets increased 2.0 percent from a year ago - from \$31,265,825 to \$31,839,627. Governmental activities decreased in net assets by less than 1 percent. Business-type activities increased in net assets by 7.5 percent. Business-type net assets grew due to the paying off of matured debt, as well as a positive cash flow from operations and property taxes. Governmental activities net assets decreased slightly, as the operating surpluses from some governmental fund types were less than the fund balance used in the Major and Local Streets Funds for road paving.

The following table shows the revenue and expense activity during June 30, 2007 and as compared to the prior year (in thousands of dollars):

	Governmental Activities		Business-type Activities		Total	
	2007	2006	2007	2006	2007	2006
Revenue						
Program revenue:						
Charges for services	\$ 1,534	\$ 1,583	\$ 3,664	\$ 3,859	\$ 5,198	\$ 5,442
Operating grants and contributions	682	579	-	-	682	579
General revenue:						
Property taxes	9,618	9,372	1,197	1,156	10,815	10,528
State-shared revenue	807	824	-	-	807	824
Interest	577	614	71	99	648	713
Franchise fees and other	618	626	-	-	618	626
Transfers	(120)	(120)	120	120	-	-
Total revenue	13,716	13,478	5,052	5,234	18,768	18,712
Program Expenses						
General government	2,742	3,032	-	-	2,742	3,032
Public safety	4,937	4,755	-	-	4,937	4,755
Public works	3,694	3,282	-	-	3,694	3,282
Municipal court	259	274	-	-	259	274
Recreation and culture	1,808	1,701	-	-	1,808	1,701
Interest on long-term debt	268	260	-	-	268	260
Water and sewer	-	-	4,245	4,261	4,245	4,261
Municipal radio system	-	-	241	279	241	279
Total program expenses	13,708	13,304	4,486	4,540	18,194	17,844
Net Change in Net Assets	8	174	566	694	574	868
Net Assets - Beginning of year	23,749	23,575	7,517	6,823	31,266	30,398
Net Assets - End of year	<u>\$ 23,757</u>	<u>\$ 23,749</u>	<u>\$ 8,083</u>	<u>\$ 7,517</u>	<u>\$ 31,840</u>	<u>\$ 31,266</u>

City of Grosse Pointe Farms, Michigan

Management's Discussion and Analysis (Continued)

Governmental Activities

The City's total governmental revenues increased approximately \$238,000, or 1.8 percent from the previous fiscal year. State-shared revenue decreases were offset by strong growth in the City's tax base.

The City's total governmental expenses increased approximately \$404,000, or 3.0 percent, as the City continues to invest in capital equipment and buildings.

The following represents some of the more significant financial highlights for the year ended June 30, 2007:

- The City continues its aggressive road paving program by resurfacing over one mile of major streets and almost two miles of local streets, costing about \$520,000.
- Interest income, our third largest single, line-item revenue source, decreased by approximately \$37,000, or approximately 6.0 percent, as bond proceeds inflated interest income in the prior year; overnight interest rates rose from just over .25 percent to over 5.0 percent by the end of the fiscal year; however, long-term rates had dropped over 50 basis points. The City is adjusting its investment strategy to optimize investment return while minimizing maturity risk.
- The general government's increase in spending is largely due to increased pension funding. Contributions to both of the City's pension plans increased by approximately \$271,000 over the previous year in fiscal year 2007.

Business-type Activities

The City's business-type activities consist of the Water and Sewer Fund and Municipal Radio System. We provide water to our residents and the City of Grosse Pointe's residents at our municipal water filtration plant. The City pumps its sewage to the City of Detroit for treatment and disposal. This year, the City of Detroit's Water and Sewer Department (DWSD) increased the City's flow rate by 10.5 percent. However, the City's storm water charge increased only 2.8 percent. Also, DWSD has a third fee called "lookback," which is an adjustment to the storm water charge from two years prior. The lookback can be either a charge or a credit, as the storm water fee charged two years prior is calculated to have been too low or too high, respectively. In fiscal year 2007, the City went from a \$39,421 credit to a \$13,759 charge, resulting in a net increase in cost of \$48,966. Water and sewer rates were increased to cover projected operational costs, with a small subsidy from property taxes. The City billed out about 7 million cubic feet less than its breakeven amount of 80 million cubic feet. However, when the City's operating loss is netted with the excess of property tax revenue over the bond payments, the result is a surplus of about \$633,709.

City of Grosse Pointe Farms, Michigan

Management's Discussion and Analysis (Continued)

The City's Funds

Our analysis of the City's major funds begins on page 11, following the government-wide financial statements. The fund financial statements provide detailed information about the most significant funds, not the City as a whole. The City Council creates funds to help manage money for specific purposes, as well as show accountability for certain activities, such as the Cable T.V. Fund and the Recycling Fund. The City's major funds are the General Fund and the Capital Projects Fund.

The General Fund pays for most of the City's governmental services. The most significant are police and fire, which incurred expenses of \$4,936,706 during fiscal year 2007. The General Fund is supported primarily by property taxes and state-shared revenue. The Major Streets Fund maintains the City's major streets (as contrasted with the neighborhood streets that are maintained by the Local Streets Fund), and is supported by state gas and weight taxes. The Local Streets Fund also receives gas and weight taxes, as well as transfers from the City's General Fund and Major Streets Fund. The Insurance Retention Fund accounts for expenditures for the City's self-insured workers' compensation. The Capital Projects Fund is utilized to account for purchases of individual items greater than \$5,000.

General Fund Budgetary Highlights

Approaching the end of the year, the City administration and City Council amend the budget to account for new expenditures not in the budget, as well as unanticipated expenditures. The most significant adjustments were to (1) charges for services for additional boat well fees, (2) interest income, due to rising interest rates, (3) debt service, for interest on the harbor bonds, (4) operating transfer out - Capital Projects Fund, to send fund balance and additional funds for the harbor project, and (5) operating transfer out - Local Streets Fund, to help finance future paving projects.

Capital Asset and Debt Administration

At the end of fiscal year 2007, the City had \$41.1 million invested in a wide range of capital assets, including land, buildings, fire equipment, vehicles, and water, sewer, and storm sewer lines. The value of the infrastructure, net of depreciation contained in this report, is \$3.87 million and \$3.55 million for fiscal years 2007 and 2006, respectively (see Note 3 of the notes to the basic financial statements for additional information). The value of the land improvements and buildings and improvements, net of depreciation, is \$13.65 million and \$13.28 million for fiscal years 2007 and 2006, respectively.

City of Grosse Pointe Farms, Michigan

Management's Discussion and Analysis (Continued)

Debt reported in these financial statements is related mostly to the sewer separation project during fiscal years 2000 and 2001 and is recorded in the Water and Sewer Fund (see Note 5 of the notes to the basic financial statements for additional information). However, there have been two bond issues totaling \$6.595 million in the past two years, \$4.3 million for the refurbishment of the Pier Park's harbor and \$2.295 million for 2007 Refunding Bond relating to the partial defeasance of the 2000 General Obligation Lakeside Sewer Separation Bond.

Economic Factors and Next Year's Budgets and Rates

The City's budget for next year calls for another cut of .125 mills. This can be accomplished because of the strong growth in our tax base, as the residents continue to improve and rebuild on their properties.

On the expenditure side, medical insurance continues to increase at a rate much greater than inflation. In May 2005, the City began a self-insurance program with Blue Cross/Blue Shield in an effort to reduce costs. In December 2005, the City began self-insuring all prescription drug benefits for current employees and most retirees. Also, the City has begun receiving subsidy payments from the federal government for providing prescription drug coverage to its retirees.

Contacting the City's Management

This financial report is intended to provide our citizens, taxpayers, customers, and investors with an overview of the City's finances and to show the City's accountability for the revenue it receives. If you have any questions about this report or need additional information, we invite you to contact the Grosse Pointe Farms city controller's office.

City of Grosse Pointe Farms, Michigan

Statement of Net Assets June 30, 2007

	Primary Government		
	Governmental	Business-type	
	Activities	Activities	Total
Assets			
Cash and investments (Note 2)	\$ 7,642,983	\$ 532,797	\$ 8,175,780
Receivables:			
Customers	1,137	1,161,572	1,162,709
Property taxes	293,458	50,560	344,018
Accrued interest	128,972	9,349	138,321
Other	113,832	-	113,832
Internal balances (Note 4)	16,655	(16,655)	-
Due from other governmental units	334,994	43,375	378,369
Inventories	20,546	-	20,546
Prepaid costs and other assets	73,017	8,591	81,608
Noncurrent assets:			
Capital assets not being depreciated (Note 3)	5,918,821	50,059	5,968,880
Capital assets being depreciated - Net (Note 3)	18,400,015	16,715,428	35,115,443
Total assets	32,944,430	18,555,076	51,499,506
Liabilities			
Accounts payable	333,671	535,033	868,704
Accrued and other liabilities	621,847	-	621,847
Due to other governmental units	34,067	-	34,067
Deposits	86,817	19,777	106,594
Noncurrent liabilities (Note 5):			
Due within one year	609,861	548,939	1,158,800
Due in more than one year	7,501,411	9,368,456	16,869,867
Total liabilities	9,187,674	10,472,205	19,659,879
Net Assets			
Invested in capital assets - Net of related debt	17,475,492	6,848,092	24,323,584
Restricted - Roads	456,884		456,884
Unrestricted	5,824,380	1,234,779	7,059,159
Total net assets	\$ 23,756,756	\$ 8,082,871	\$ 31,839,627

City of Grosse Pointe Farms, Michigan

	Program Revenues			
	Charges for	Operating	Capital Grants	
Expenses	Services	Grants and	and	
		Contributions	Contributions	
Functions/Programs				
Primary government:				
Governmental activities:				
General government	\$ 2,741,679	\$ 331,962	\$ 46,570	\$ -
Public safety	4,936,706	529,272	-	-
Public works	3,694,198	100,658	634,912	-
Municipal court	259,534	115,937	-	-
Recreation and culture	1,807,819	456,257	-	433
Principal payments on long-term debt	-	-	-	-
Interest on long-term debt	268,800	-	-	-
Total governmental activities	13,708,736	1,534,086	681,482	433
Business-type activities:				
Water and sewer	4,244,210	3,490,652	-	-
Municipal radio system	240,904	173,041	-	-
Total business-type activities	4,485,114	3,663,693	-	-
Total primary government	<u>\$ 18,193,850</u>	<u>\$ 5,197,779</u>	<u>\$ 681,482</u>	<u>\$ 433</u>
General revenues:				
Property taxes				
State-shared revenues				
Interest				
Franchise fees and other				
Transfers				
Total general revenues and transfers				
Change in Net Assets				
Net Assets - Beginning of year				
Net Assets - End of year				

Statement of Activities
Year Ended June 30, 2007

Net (Expense) Revenue and Changes in Net Assets		
Primary Government		
Governmental Activities	Business-type Activities	Total
\$ (2,363,147)	\$ -	\$ (2,363,147)
(4,407,434)	-	(4,407,434)
(2,958,628)	-	(2,958,628)
(143,597)	-	(143,597)
(1,351,129)	-	(1,351,129)
-	-	-
(268,800)	-	(268,800)
(11,492,735)	-	(11,492,735)
-	(753,558)	(753,558)
-	(67,863)	(67,863)
-	(821,421)	(821,421)
(11,492,735)	(821,421)	(12,314,156)
9,618,175	1,196,609	10,814,784
807,176	-	807,176
577,229	70,661	647,890
618,108	-	618,108
(120,000)	120,000	-
11,500,688	1,387,270	12,887,958
7,953	565,849	573,802
23,748,803	7,517,022	31,265,825
\$ 23,756,756	\$ 8,082,871	\$ 31,839,627

City of Grosse Pointe Farms, Michigan

Governmental Funds Balance Sheet June 30, 2007

	General Fund	Capital Projects Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
Assets				
Cash and investments (Note 2)	\$ 5,418,272	\$ 904,329	\$ 482,368	\$ 6,804,969
Receivables:				
Property taxes	293,098	360	-	293,458
Customers	-	-	1,137	1,137
Interest	92,370	7,663	17,690	117,723
Other	111,642	2,190	-	113,832
Prepaid costs and other assets	73,017	-	-	73,017
Due from other funds (Note 4)	16,655	-	500,000	516,655
Due from other governmental units	240,773	-	94,221	334,994
Inventories	20,546	-	-	20,546
Total assets	<u>\$ 6,266,373</u>	<u>\$ 914,542</u>	<u>\$ 1,095,416</u>	<u>\$ 8,276,331</u>
Liabilities and Fund Balances				
Liabilities				
Accounts payable	\$ 293,675	\$ 15,895	\$ 23,503	\$ 333,073
Accrued and other liabilities	625,929	-	4,976	630,905
Due to other funds (Note 4)	500,000	-	-	500,000
Due to other governmental units	34,067	-	-	34,067
Unearned revenue	142,135	-	-	142,135
Cash bonds and deposits	86,817	-	-	86,817
Total liabilities	1,682,623	15,895	28,479	1,726,997
Fund Balances				
Reserved for prepaids items and inventories	93,563	-	-	93,563
Unreserved, reported in:				
General Fund	2,448,152	-	-	2,448,152
Special Revenue Funds	-	-	1,066,937	1,066,937
Capital Projects Fund	-	898,647	-	898,647
Designated for subsequent year's capital outlay	2,042,035	-	-	2,042,035
Total fund balances	4,583,750	898,647	1,066,937	6,549,334
Total liabilities and fund balances	<u>\$ 6,266,373</u>	<u>\$ 914,542</u>	<u>\$ 1,095,416</u>	<u>\$ 8,276,331</u>

City of Grosse Pointe Farms, Michigan

Governmental Funds **Reconciliation of Fund Balance to the Statement of Net Assets** **Year Ended June 30, 2007**

Total Fund Balances for Governmental Funds	\$ 6,549,334
---	--------------

Amounts reported for governmental activities in the statement of net assets are different because:

Certain receivables are expected to be collected over several years and are not available to pay for current year expenditures in the General Fund	142,135
--	---------

Capital assets used in governmental activities are not financial resources and are not reported in the funds	24,318,836
--	------------

Long-term liabilities are not due and payable in the current period and are not reported in the funds	(7,829,272)
---	-------------

Accrued interest payable is not included as a liability in governmental funds	(60,942)
---	----------

Internal Service Fund is included as part of governmental activities	636,665
--	---------

Net Assets of Governmental Activities	<u>\$ 23,756,756</u>
--	-----------------------------

City of Grosse Pointe Farms, Michigan

Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balances Year Ended June 30, 2007

	General Fund	Capital Projects Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
Revenue				
Property taxes	\$ 9,618,172	\$ -	\$ -	\$ 9,618,172
Licenses and permits	260,824	-	-	260,824
Federal sources	-	-	42,886	42,886
State sources	821,740	-	648,700	1,470,440
Charges for services	1,268,890	-	96,839	1,365,729
Fines and forfeitures	334,208	-	-	334,208
Interest	494,517	30,196	19,706	544,419
Other	191,433	433	-	191,866
Total revenue	12,989,784	30,629	808,131	13,828,544
Expenditures				
Current:				
General government	1,024,011	-	-	1,024,011
Public safety	4,385,382	-	-	4,385,382
Public works and streets	1,561,512	-	1,264,729	2,826,241
Public service	557,572	-	107,376	664,948
Municipal court	259,534	-	-	259,534
Recreation and culture	1,162,040	-	-	1,162,040
Other	1,997,665	-	42,886	2,040,551
Capital outlay	-	764,220	-	764,220
Debt service	-	-	316,130	316,130
Total expenditures	10,947,716	764,220	1,731,121	13,443,057
Excess of Revenue Over (Under) Expenditures	2,042,068	(733,591)	(922,990)	385,487
Other Financing Sources (Uses)				
Transfers in (Note 4)	-	543,137	992,630	1,535,767
Transfers out (Note 4)	(1,625,767)	-	(180,000)	(1,805,767)
Total other financing sources (uses)	(1,625,767)	543,137	812,630	(270,000)
Net Change in Fund Balances	416,301	(190,454)	(110,360)	115,487
Fund Balances - Beginning of year	4,167,449	1,089,101	1,177,297	6,433,847
Fund Balances - End of year	\$ 4,583,750	\$ 898,647	\$ 1,066,937	\$ 6,549,334

City of Grosse Pointe Farms, Michigan

Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended June 30, 2007

Net Change in Fund Balances - Total Governmental Funds \$ 115,487

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation:

Capital outlay expenditures	1,239,699
Depreciation expense	(1,444,375)
Loss on disposal of capital assets	(10,880)

Revenue reported in the statement of activities that does not provide current financial resources and is not reported as revenue in the governmental funds (GASB No. 33) (13,788)

Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt) 46,875

Accrued interest is recorded in the statement of activities when incurred; it is not reported in governmental funds until paid 455

Underwriter's discount originally reported as a decrease in bond proceeds in the funds and amortized in the statement of activities over the life of the corresponding bond issue 1,503

Increase in accumulated employee sick and vacation pay, as well as estimated general liability claims, is recorded when earned in the statement of activities (64,576)

Internal Service Funds are also included as governmental activities 137,553

Change in Net Assets of Governmental Activities \$ 7,953

City of Grosse Pointe Farms, Michigan

Proprietary Funds Statement of Net Assets June 30, 2007

	Business-type Activities			Governmental Activity
	Enterprise - Water and Sewer	Municipal Radio System	Total Business- type Activities	Internal Service Fund - Insurance Retention
Assets				
Current assets:				
Cash and investments (Note 2)	\$ 532,797	\$ -	\$ 532,797	\$ 838,014
Receivables:				
Customers	1,161,572	-	1,161,572	-
Property taxes	50,560	-	50,560	-
Interest	9,349	-	9,349	11,249
Due from other governmental units	4,466	38,909	43,375	-
Prepaid costs and other assets	8,045	546	8,591	-
Total current assets	1,766,789	39,455	1,806,244	849,263
Noncurrent assets:				
Capital assets not being depreciated (Note 3)	50,059	-	50,059	-
Capital assets being depreciated - Net (Note 3)	15,799,166	916,262	16,715,428	-
Total noncurrent assets	15,849,225	916,262	16,765,487	-
Total assets	17,616,014	955,717	18,571,731	849,263
Liabilities				
Current liabilities:				
Accounts payable	532,012	3,021	535,033	598
Due to other funds (Note 4)	-	16,655	16,655	-
Deposits	-	19,777	19,777	-
Current portion of long-term debt (Note 5)	548,939	-	548,939	-
Total current liabilities	1,080,951	39,453	1,120,404	598
Noncurrent liabilities:				
Provision for uninsured losses	-	-	-	212,000
Long-term debt - Net of current portion (Note 5)	9,368,456	-	9,368,456	-
Total noncurrent liabilities	9,368,456	-	9,368,456	212,000
Total liabilities	10,449,407	39,453	10,488,860	212,598
Net Assets				
Investment in capital assets - Net of related debt	5,931,830	916,262	6,848,092	-
Unrestricted	1,234,777	2	1,234,779	636,665
Total net assets	\$ 7,166,607	\$ 916,264	\$ 8,082,871	\$ 636,665

City of Grosse Pointe Farms, Michigan

Proprietary Funds Statement of Revenue, Expenses, and Changes in Net Assets Year Ended June 30, 2007

	Business-type Activities			Governmental Activity
	Enterprise - Water and Sewer	Municipal Radio System	Total Business-type Activities	Internal Service Fund - Insurance Retention
Operating Revenue				
Sale of water	\$ 1,174,041	\$ -	\$ 1,174,041	\$ -
Sewage disposal charges	1,671,636	-	1,671,636	-
Radio system charges	-	173,041	173,041	-
Other	644,975	-	644,975	-
Total operating revenue	3,490,652	173,041	3,663,693	-
Operating Expenses				
Water pumping and filtration	955,673	-	955,673	-
Sewage treatment	1,647,604	-	1,647,604	-
Sewage pumping	253,681	-	253,681	-
Water distribution	282,477	-	282,477	-
Radio system	-	174,023	174,023	-
Benefit payments	-	-	-	45,257
General and administrative expenses	415,550	-	415,550	-
Depreciation	340,626	66,881	407,507	-
Total operating expenses	3,895,611	240,904	4,136,515	45,257
Operating Loss	(404,959)	(67,863)	(472,822)	(45,257)
Nonoperating Revenue (Expense)				
Interest income	70,661	-	70,661	32,810
Interest expense	(348,599)	-	(348,599)	-
Property taxes	1,196,606	-	1,196,606	-
Total nonoperating revenues	918,668	-	918,668	32,810
Income (Loss) - Before operating transfers	513,709	(67,863)	445,846	(12,447)
Operating Transfers In	120,000	-	120,000	150,000
Change in Net Assets	633,709	(67,863)	565,846	137,553
Net Assets - Beginning of year	6,532,898	984,127	7,517,025	499,112
Net Assets - End of year	<u>\$ 7,166,607</u>	<u>\$ 916,264</u>	<u>\$ 8,082,871</u>	<u>\$ 636,665</u>

City of Grosse Pointe Farms, Michigan

Proprietary Funds Statement of Cash Flows Year Ended June 30, 2007

	Business-type Activities			Governmental Activity
	Enterprise - Water and Sewer Fund	Municipal Radio System	Total Business-type Activities	Internal Service Fund - Insurance Retention
Cash Flows from Operating Activities				
Receipts from customers	\$ 2,732,671	\$ 173,041	\$ 2,905,712	\$ -
Payments to suppliers	(1,362,048)	(111,205)	(1,473,253)	-
Payments to employees	(1,491,831)	(64,063)	(1,555,894)	-
Claims paid	-	-	-	(50,875)
Other receipts (payments)	86,166	2,227	88,393	(1,757)
Net cash used in operating activities	(35,042)	-	(35,042)	(52,632)
Cash Flows from Noncapital Financing Activities -				
Transfers in from other funds	120,000	-	120,000	150,000
Cash Flows from Capital and Related Financing Activities				
Purchase of capital assets	(1,458,544)	-	(1,458,544)	-
Property taxes	1,196,606	-	1,196,606	-
Principal, interest, and other costs paid on long-term debt	(744,265)	-	(744,265)	-
Net cash used in capital and related financing activities	(1,006,203)	-	(1,006,203)	-
Cash Flows from Investing Activities - Interest received on investments	70,661	-	70,661	32,810
Net Increase (Decrease) in Cash and Cash Equivalents	(850,584)	-	(850,584)	130,178
Cash and Cash Equivalents - Beginning of year	1,383,381	-	1,383,381	777,836
Cash and Cash Equivalents - End of year	<u>\$ 532,797</u>	<u>\$ -</u>	<u>\$ 532,797</u>	<u>\$ 908,014</u>
Balance Sheet Classification of Cash and Cash Equivalents - Cash and cash equivalents	<u>\$ 532,797</u>	<u>\$ -</u>	<u>\$ 532,797</u>	<u>\$ 838,014</u>
Reconciliation of Operating Loss to Net Cash from Operating Activities				
Operating loss	\$ (404,959)	\$ (67,863)	\$ (472,822)	\$ (45,257)
Adjustments to reconcile operating loss to net cash from operating activities:				
Depreciation	340,626	66,881	407,507	-
Amortization of bond discounts/premiums	27,992	-	27,992	-
Loss on sale of capital assets	296,394	-	296,394	-
Changes in assets and liabilities:				
Receivables	(104,635)	-	(104,635)	(1,757)
Due from other governmental units	31,414	70,325	101,739	-
Other assets	4,219	210	4,429	-
Accounts payable	(285,556)	1,245	(284,311)	(5,618)
Due to other funds	(882)	(70,798)	(71,680)	-
Accrued and other liabilities	60,345	-	60,345	-
Net cash used in operating activities	<u>\$ (35,042)</u>	<u>\$ -</u>	<u>\$ (35,042)</u>	<u>\$ (52,632)</u>

Supplemental Cash Flow Information - There were no noncash transactions for the year ended June 30, 2007.

City of Grosse Pointe Farms, Michigan

Fiduciary Funds Statement of Net Assets June 30, 2007

	Pension Trust Funds	Agency Fund Tax Collection
Assets		
Cash and cash equivalents	\$ 326,531	\$ 82,314
Investments:		
Common stock	357,464	-
Mutual funds	49,281,254	-
Receivables:		
Interest	125,203	-
Other	34,655	-
Due from other governmental units	230	-
Total assets	50,125,337	<u><u>\$ 82,314</u></u>
Liabilities		
Accounts payable	21,147	\$ 21
Due to other governmental units	87,974	82,293
Total liabilities	109,121	<u><u>\$ 82,314</u></u>
Net Assets		
Held in trust for pension benefits	46,548,713	
Held in trust for postemployment healthcare benefits	3,467,503	
Total net assets	<u><u>\$ 50,016,216</u></u>	

City of Grosse Pointe Farms, Michigan

Fiduciary Funds Statement of Changes in Net Assets Year Ended June 30, 2007

	Pension Trust Funds
Additions	
Investment income:	
Interest and dividends	\$ 1,724,753
Net increases to fair market value	<u>5,851,189</u>
Net investment income	7,575,942
Contributions:	
Employer	1,108,786
Employee	<u>275,611</u>
Total additions	8,960,339
Deductions	
Benefit payments	1,986,109
Health benefits	256,215
Refunds to withdrawing members	163,667
Administrative expenses	<u>117,445</u>
Total deductions	<u>2,523,436</u>
Change in Net Assets	6,436,903
Net Assets Held in Trust for Pension Benefits	
Beginning of year	<u>43,579,313</u>
End of year	<u><u>\$ 50,016,216</u></u>
<u>Net Assets</u>	
Reserved for Pension Benefits - Beginning of year	\$ 40,689,802
Net Increase	<u>5,858,911</u>
Reserved for Pension Benefits - End of year	<u><u>\$ 46,548,713</u></u>
Reserved for Postemployment Healthcare Benefits - Beginning of year	\$ 2,889,511
Net Increase	<u>577,992</u>
Reserved for Postemployment Healthcare Benefits - End of year	<u><u>\$ 3,467,503</u></u>

City of Grosse Pointe Farms, Michigan

Notes to Financial Statements June 30, 2007

Note 1 - Summary of Significant Accounting Policies

The accounting policies of the City of Grosse Pointe Farms (the "City") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the City:

Reporting Entity

The City is governed by an elected seven-member council. In accordance with accounting principles generally accepted in the United States of America, there are no component units to be included in the City's reporting entity.

Jointly Governed Organization - The City is a member of the Grosse Pointes-Clinton Refuse Disposal Authority joint venture, which provided refuse disposal services to participating municipalities in the counties of Wayne and Macomb, Michigan. Other members include the Cities of Grosse Pointe Park, Grosse Pointe, Grosse Pointe Shores, Harper Woods, Mount Clemens, Grosse Pointe Woods, and the Township of Clinton. As a result of financial difficulty, in April 1999, the Authority's governing board ceased operations. Complete financial statements for the Grosse Pointes-Clinton Refuse Disposal Authority joint venture can be obtained from the Authority's General Counsel: John J. Gillooly, Garan Lucow Miller, P.C, 1000 Woodbridge Street, Detroit, MI 48207, (313) 446-5501. The City is unaware of any circumstance that would cause an additional benefit or burden to the participating governments of the above joint venture in the near future.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

City of Grosse Pointe Farms, Michigan

Notes to Financial Statements June 30, 2007

Note 1 - Summary of Significant Accounting Policies (Continued)

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual Enterprise Funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and Trust Fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be available only when cash is received by the City.

City of Grosse Pointe Farms, Michigan

Notes to Financial Statements June 30, 2007

Note 1 - Summary of Significant Accounting Policies (Continued)

The City reports the following major governmental funds:

- The General Fund is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.
- The Capital Projects Fund is used to account for the development of capital facilities other than those financed by the operations of the business-type activities.

The City reports the following major proprietary funds:

- The Water and Sewer Fund accounts for the results of operations that provide water and sewer services to citizens and is financed by a user charge for the provision of those services.
- The Municipal Radio System Fund accounts for the financing of the municipal radio system utilized by the City and other local governments.

Additionally, the City reports the following fund types:

- The Internal Service Fund accounts for risk management services provided to other departments of the City on a cost reimbursement basis.
- The Pension Trust Funds account for the activities of the General Employees' and Public Safety Retirement Systems, which accumulate resources for pension and healthcare benefit payments to qualified general and public safety employees.
- The Agency Fund accounts for assets held by the City in a trustee capacity or as an agent for individuals, organizations, or other governments. Agency Fund activity consists of tax collections activity.

Private sector standards of accounting issued prior to December 1, 1989 are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The City has elected not to follow private sector standards issued after November 30, 1989 for its business-type activities.

City of Grosse Pointe Farms, Michigan

Notes to Financial Statements June 30, 2007

Note 1 - Summary of Significant Accounting Policies (Continued)

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the City's water and sewer function and various other functions of the City. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. The principal operating revenue of the City's proprietary funds relates to charges to customers or other governments for sales and services. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

Assets, Liabilities, and Net Assets or Equity

Cash and Investments - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value based upon quoted market prices.

Receivables and Payables - In general, outstanding balances between funds are reported as "due to/from other funds." Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as "advances to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances."

All trade and property tax receivables are shown as net of allowance for uncollectible amounts. Property taxes are levied on each July 1 on the taxable valuation of property as of the preceding December 31. Taxes are considered delinquent on February 28 of the following year, at which time penalties and interest are assessed.

The 2006 taxable valuation of the City totaled \$799,993,340, on which ad valorem taxes levied consisted of 10.350 mills for the City's operating purposes, 1.50 mills for debt service, and 1.275 mills for rubbish removal. The ad valorem taxes raised \$8,259,771 for general operations, \$861,944 for debt service, and \$1,017,509 for rubbish removal. These amounts are recorded in their respective funds as tax revenue.

City of Grosse Pointe Farms, Michigan

Notes to Financial Statements June 30, 2007

Note 1 - Summary of Significant Accounting Policies (Continued)

Inventories and Prepaid Items - Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

Restricted Assets - When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, it is the City's policy to first apply the restricted resources.

Capital Assets - Capital assets, which include property, buildings, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items acquired subsequent to June 30, 1980), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the City as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Infrastructure	20 to 25 years
Utility systems	20 to 80 years
Buildings and building improvements	20 to 50 years
Vehicles	5 to 10 years
Office furnishings	10 to 20 years
Machinery and equipment	3 to 20 years

Compensated Absences (Vacation and Sick Leave) - The City allows employees to accumulate earned but unused sick and vacation pay benefits. The government-wide and proprietary statements accrue all vacation and sick pay as it is earned. All vacation pay is accrued when incurred in the government-wide, proprietary, and fiduciary fund financial statements. A liability for these amounts is reported in governmental funds as it comes due for payment (when the time is taken off, or employees terminate.)

City of Grosse Pointe Farms, Michigan

Notes to Financial Statements June 30, 2007

Note 1 - Summary of Significant Accounting Policies (Continued)

Long-term Obligations - In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund-type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Fund Equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Construction Code Act - The City oversees building construction, in accordance with the State's Construction Code Act, including inspection of building construction and renovation to ensure compliance with the building codes. The City charges fees for these services. The law requires that collection of these fees be used only for construction code costs, including an allocation of estimated overhead costs. A summary of the current year activity and the cumulative shortfall generated since July 1, 2000 is as follows:

Shortfall - July 1, 2006		\$ (414,146)
Current year building permit revenue	\$ 165,556	
Related expenses	<u>195,983</u>	
Net shortfall for the year ended June 30, 2007		<u>(30,427)</u>
Cumulative shortfall - June 30, 2007		<u>\$ (444,573)</u>

City of Grosse Pointe Farms, Michigan

Notes to Financial Statements June 30, 2007

Note 2 - Deposits and Investments

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The General Employees' Retirement System and Public Safety Retirement System pension trust fund are also authorized by Michigan Public Act 314 of 1965, as amended, to invest in certain reverse repurchase agreements, stocks, diversified investment companies, annuity investment contracts, real estate leased to public entities, mortgages, real estate (if the trust fund's assets exceed \$250 million), debt or equity of certain small businesses, certain state and local government obligations, and certain other specified investment vehicles.

The City's cash and investments are subject to several types of risk, which are examined in more detail below:

Custodial Credit Risk of Bank Deposits

Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City does not have a deposit policy for custodial credit risk. At year end, the City had \$7,054,683 of bank deposits (certificates of deposit, checking, and savings accounts) that were uninsured and uncollateralized. The City believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the City evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories. The City held deposits in 24 financial institutions as of June 30, 2007.

City of Grosse Pointe Farms, Michigan

Notes to Financial Statements June 30, 2007

Note 2 - Deposits and Investments (Continued)

Interest Rate Risk

Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The City's investment policy does not restrict investment maturities, other than commercial paper which can only be purchased with a 270-day maturity. At year end, the average maturities of investments are as follows:

<u>Investment</u>	<u>Fair Value</u>	<u>Weighted Average Maturity</u>
Negotiable certificate of deposits	\$ 1,038,683	1.27 years
U.S. government agency obligations	4,360,579	5.10 years

Credit Risk

State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The City has no investment policy that would further limit its investment choices. As of year end, the credit quality ratings of debt securities (other than the U.S. government) are as follows:

<u>Investment</u>	<u>Fair Value</u>	<u>Rating</u>	<u>Rating Organization</u>
Negotiable certificate of deposits	\$ 1,038,683	Not rated	N/A
U.S. government agency obligations	4,360,579	AAA	S&P
Bank investment pool	677,356	AAAm	S&P
Mutual funds - Pension funds	15,307,581	AAA	S&P
Mutual funds - Pension funds	11,862,387	Not rated	N/A

Concentration of Credit Risk

The City places no limit on the amount that may be invested in any one issuer; however, the City's funds are limited by law in that investments in any one issuer (other than the U.S. government) may not exceed 5 percent of total investments. At June 30, 2007, there were no investments in any one issuer (other than the U.S. government) that exceeded 5 percent of total investments for the fiduciary funds.

City of Grosse Pointe Farms, Michigan

Notes to Financial Statements June 30, 2007

Note 3 - Capital Assets

Capital asset activity of the City's governmental and business-type activities was as follows:

	Balance July 1, 2006	Additions	Disposals and Adjustments	Balance June 30, 2007
Governmental Activities				
Capital assets not being depreciated - Land	\$ 5,918,821	\$ -	\$ -	\$ 5,918,821
Capital assets being depreciated:				
Infrastructure	6,287,115	580,764	-	6,867,879
Land improvements	9,076,602	410,270	-	9,486,872
Buildings and improvements	8,800,497	14,396	(34,379)	8,780,514
Vehicles	2,948,876	146,856	(64,262)	3,031,470
Office furnishings	675,493	13,350	(10,740)	678,103
Machinery and equipment	355,146	74,063	-	429,209
Subtotal	28,143,729	1,239,699	(109,381)	29,274,047
Accumulated depreciation:				
Infrastructure	2,740,624	260,416	-	3,001,040
Land improvements	2,934,227	475,423	-	3,409,650
Buildings and improvements	1,899,853	277,785	(24,824)	2,152,814
Vehicles	1,515,496	300,721	(63,192)	1,753,025
Office furnishings	322,685	85,881	(10,485)	398,081
Machinery and equipment	115,273	44,149	-	159,422
Subtotal	9,528,158	1,444,375	(98,501)	10,874,032
Net capital assets being depreciated	18,615,571	(204,676)	(10,880)	18,400,015
Net capital assets	\$ 24,534,392	\$ (204,676)	\$ (10,880)	\$ 24,318,836

City of Grosse Pointe Farms, Michigan

Notes to Financial Statements June 30, 2007

Note 3 - Capital Assets (Continued)

Business-type Activities	Balance July 1, 2006	Additions	Disposals and Adjustments	Balance June 30, 2007
Capital assets not being depreciated:				
Land	\$ 45,482	\$ -	\$ -	\$ 45,482
Construction in progress	136,815	156,344	(288,582)	4,577
Subtotal	182,297	156,344	(288,582)	50,059
Capital assets being depreciated:				
Utility systems	16,506,844	316,234	-	16,823,078
Buildings and building improvements	1,176,007	703,679	-	1,879,686
Vehicles	240,815	-	-	240,815
Land improvements	-	65,416	-	65,416
Office furnishings	75,879	-	(3,130)	72,749
Machinery and equipment	2,072,879	156,240	(9,822)	2,219,297
Subtotal	20,072,424	1,241,569	(12,952)	21,301,041
Accumulated depreciation:				
Utility systems	2,641,787	234,008	-	2,875,795
Buildings and building improvements	936,418	60,047	-	996,465
Vehicles	63,440	10,750	-	74,190
Land improvements	-	3,271	-	3,271
Office furnishings	73,886	1,354	(3,130)	72,110
Machinery and equipment	467,713	98,077	(2,008)	563,782
Subtotal	4,183,244	407,507	(5,138)	4,585,613
Net capital assets being depreciated	15,889,180	834,062	(7,814)	16,715,428
Net capital assets	\$ 16,071,477	\$ 990,406	\$ (296,396)	\$ 16,765,487

Depreciation expense was charged to programs of the primary government as follows:

Governmental activities:

General government	\$ 127,843
Public safety	189,830
Public works	480,923
Recreation and culture	645,779

Total governmental activities \$ 1,444,375

Business-type activities:

Water and sewer	\$ 340,626
Municipal radio system	66,881

Total business-type activities \$ 407,507

City of Grosse Pointe Farms, Michigan

Notes to Financial Statements June 30, 2007

Note 4 - Interfund Receivables, Payables, and Transfers

The composition of interfund balances is as follows:

Receivable Fund	Payable Fund	Amount
Due to/from Other Funds		
General Fund	Municipal Radio System	\$ 16,655
Nonmajor governmental funds	General Fund	500,000
	Total	<u>\$ 516,655</u>

Interfund balances represent routine and temporary cash flow assistance from the governmental funds until amounts are transferred from fund investment accounts.

Fund Transferred From	Fund Transferred To	Amount
General Fund	Nonmajor governmental funds	\$ 812,630
	Insurance Retention Fund	150,000
	Capital Projects Fund	543,137
	Water and Sewer Fund	120,000
	Total General Fund	1,625,767
Nonmajor governmental funds	Nonmajor governmental funds	180,000
	Total	<u>\$ 1,805,767</u>

Transfers provide funding for capital projects, capital acquisitions, and debt services.

Note 5 - Long-term Debt

The City issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the City. Revenue bonds involve a pledge of specific income derived from the acquired or constructed assets to pay debt service.

City of Grosse Pointe Farms, Michigan

Notes to Financial Statements June 30, 2007

Note 5 - Long-term Debt (Continued)

Long-term obligation activity can be summarized as follows:

	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities							
Harbor Project Bonds							
Amount of issue - \$4,300,000	3.50% -	\$75,000 -					
Maturing through 2026	4.00%	\$350,000	\$ 4,300,000	\$ -	\$ -	\$ 4,300,000	\$ 75,000
Unamortized premium of issuance			37,433	-	1,872	35,561	1,872
2004 Recreation Building Bonds							
Amount of issue - \$2,500,000	2.50% -	\$46,875 -					
Maturing through 2025	4.50%	\$250,000	2,500,000	-	46,875	2,453,125	46,875
Unamortized discount of issuance			(6,654)	-	(370)	(6,284)	(370)
Total bond obligations			6,830,779	-	48,377	6,782,402	123,377
Other long-term obligations:							
Provision for uninsured losses			282,000	-	-	282,000	20,000
Compensated absences			982,294	523,373	458,797	1,046,870	466,484
Total governmental activities			8,095,073	523,373	507,174	8,111,272	609,861
Business-type Activities							
General obligation bonds:							
2000 Lakeside Sewer Separation*							
Amount of issue - \$3,205,000	5.00% -	\$125,000 -					
Maturing through 2021	5.40%	\$250,000	2,675,000	-	2,275,000	400,000	125,000
Unamortized discount of issuance			(33,050)	-	(25,838)	(7,212)	(2,404)
1999 Lakeside Sewer Separation							
Amount of issue - \$7,625,000		\$340,000 -					
Maturing through 2021	2.50%	\$480,000	6,055,000	-	340,000	5,715,000	345,000
2004 General Obligation Bond							
Amount of issue - \$1,500,000	2.50% -	\$28,125 -					
Maturing through 2025	4.50%	\$150,000	1,500,000	-	28,125	1,471,875	28,125
Unamortized discount of issuance			(3,992)	-	(222)	(3,770)	(222)
Amount of issue - \$2,295,000	3.55%	\$15,000 -					
Maturing through 2021	4.00%	\$250,000	-	2,295,000	-	2,295,000	20,000
Unamortized deferred charge on refunding			-	(108,172)	(1,932)	(106,240)	(7,727)
Total bond obligations			10,192,958	2,186,828	2,615,133	9,764,653	507,772
Other long-term obligations - Compensated absences			92,397	110,185	49,840	152,742	41,167
Total business-type activities			10,285,355	2,297,013	2,664,973	9,917,395	548,939
Total			\$ 18,380,428	\$ 2,820,386	\$ 3,172,147	\$ 18,028,667	\$ 1,158,800

* 2000 General Obligation Bonds were partially refunded in 2007

City of Grosse Pointe Farms, Michigan

Notes to Financial Statements June 30, 2007

Note 5 - Long-term Debt (Continued)

Annual debt service requirements to maturity for the above governmental and business-type bond and note obligations are as follows:

	Governmental Activities			Business-type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2008	\$ 123,377	\$ 265,092	\$ 388,469	\$ 507,772	\$ 421,936	\$ 929,708
2009	164,002	260,146	424,148	522,147	408,283	930,430
2010	164,002	254,850	418,852	557,147	391,540	948,687
2011	195,252	248,889	444,141	588,301	260,748	849,049
2012	245,252	240,475	485,727	593,301	242,875	836,176
2013-2017	1,520,010	1,013,894	2,533,904	3,332,755	918,462	4,251,217
2018-2022	2,276,260	635,978	2,912,238	3,251,170	355,366	3,606,536
2023-2027	2,094,247	130,504	2,224,751	412,060	27,902	439,962
Total	\$ 6,782,402	\$ 3,049,828	\$ 9,832,230	\$ 9,764,653	\$ 3,027,112	\$ 12,791,765

Defeased Debt

In April 2007, the City issued \$2,295,000 in refunding bonds with interest rates ranging from 3.55 percent to 4.00 percent; the proceeds were used to advance refund \$2,275,000 of outstanding 2000 General Obligations (Lakeside Sewer Separation) bonds with interest rates ranging from 5.00 percent to 5.40 percent. The net proceeds of \$2,250,983 (including premiums of \$16,245 and after payment of \$60,262 in underwriting fees and other issuance costs) were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the bonds mentioned above. As a result, bonds are considered to be defeased and the liability for the refunded portion of the bonds has been removed from the City's financial statements. The advance refunding reduced total debt service payments over the next 14 years by \$87,963. This represents an economic gain of \$68,082.

Note 6 - Risk Management

The City is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The City has purchased commercial insurance for medical claims in excess of \$375,000 and participates in the Michigan Municipal League risk pool for claims relating to property loss and general liability; the City is uninsured for workers' compensation claims up to \$375,000. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past five fiscal years.

City of Grosse Pointe Farms, Michigan

Notes to Financial Statements June 30, 2007

Note 6 - Risk Management (Continued)

The Michigan Municipal League risk pool program operates as a common risk-sharing management program for local units of government in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

Medical

The City is self-funding medical benefits up to a retention amount, at which time the City's reinsurance coverage begins. The self-funding program is done in conjunction with the cities of Grosse Pointe, Grosse Pointe Park, Grosse Pointe Woods, and the Village of Grosse Pointe Shores. The Village of Grosse Pointe Shores serves as the administrative agent for the program; however, each municipality is responsible for its individual claims.

The City estimates the liability for medical benefits claims that have been incurred through the end of the fiscal year, including both those claims that have been reported as well as those that have not yet been reported. The City's liability is based on individual claims and management's evaluation of experience with respect to the probable number and nature of claims. The estimated liability for medical claims at June 30, 2007, as well as the claims incurred during the period from May 1, 2007 through June 30, 2007, is not significant.

Workers' Compensation

The City is self-insured for workers' compensation claims. Under the program, the City is held liable for the first \$375,000 of any occurrence. The City has purchased excess insurance to cover claims greater than \$375,000.

The City estimates the liability for workers' compensation and medical benefits that have been incurred through the end of the fiscal year, including claims that have been reported as well as those that have not yet been reported, which includes estimates of both future payments of losses and related claim adjustment expense, both allocated and unallocated. The liability is based on individual claims and management's evaluation of experience with respect to the probable number and nature of claims. Any adjustments resulting from the settlement of losses will be reflected in earnings at the time the adjustments are determined. These estimates are recorded in the Insurance Retention Internal Service Fund and within the governmental activities and business-type activities columns of the statement of net assets. Changes in the estimated liability for the past two fiscal years were as follows:

City of Grosse Pointe Farms, Michigan

Notes to Financial Statements June 30, 2007

Note 6 - Risk Management (Continued)

	2007	2006
Unpaid claims - Beginning of year	\$ 282,000	\$ 282,000
Inurred claims (including claims incurred but not reported)	45,257	166,675
Claim payments	(115,257)	(166,675)
Unpaid claims - End of year	<u>\$ 212,000</u>	<u>\$ 282,000</u>

Note 7 - Retirement Plans

Description of Plans

The City contributes to two retirement plans, the Public Safety Retirement System and the General Employees' Retirement System. The Public Safety Retirement System and the General Employees' Retirement System are the administrators of single-employer defined benefit public employee retirement systems that cover all police and fire employees and substantially all other general employees, respectively. The plans do not issue separate financial reports.

Public Safety Retirement System - The system provides retirement, disability, and death benefits to plan members and their beneficiaries. In addition to providing pension benefits, the system provides healthcare benefits (in accordance with labor contracts) for plan members if they reach the normal retirement age while working for the City. Currently, 33 retirees are eligible and receiving healthcare benefits. At June 30, 2006, the date of the most recent actuarial valuation, membership consisted of 43 retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them and 38 current active employees.

General Employees' Retirement System - The system provides retirement, disability, and death benefits to plan members and their beneficiaries. In addition to providing pension benefits, the system provides healthcare benefits (in accordance with labor contracts) for plan members if they reach the normal retirement age while working for the City. Currently, 39 retirees are eligible and receiving healthcare benefits. At June 30, 2006, the date of the most recent actuarial valuation, membership consisted of 41 retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them and 62 current active employees.

City of Grosse Pointe Farms, Michigan

Notes to Financial Statements June 30, 2007

Note 7 - Retirement Plans (Continued)

Contributions

Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to the plans are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plans. Please refer to Note 1 for further significant accounting policies.

Public Safety Retirement System - The obligation to contribute to and maintain the system for these employees was established by negotiation with the City's collective bargaining units and requires contributions from the employees of 5 percent. Future amendments to benefit provisions would involve negotiation with these collective bargaining units. Employer contributions to the system to fund healthcare benefits are voluntary. The funding policy provides for periodic employer contributions at actuarially determined rates. Administrative costs of the plan are financed through investment earnings.

General Employees' Retirement System - The obligation to contribute to and maintain the system for these employees was established by negotiation with the City's collective bargaining units and requires a contribution from the Police Officers' Association of Michigan - Dispatchers employees of 3 percent of the first \$4,200 of gross wages and 5 percent of remaining gross wages. Future amendments to benefit provisions would involve negotiation with these collective bargaining units. All other employees' collective bargaining units require a contribution from employees of 3.5 percent of all gross wages. Employer contributions to the system to fund healthcare benefits are voluntary. The funding policy provides for periodic employer contributions at actuarially determined rates. Administrative costs of the plan are financed through investment earnings.

Annual Pension Cost

Public Safety Retirement System - For the fiscal year ended June 30, 2007, the City's annual pension cost of \$212,680 was equal to the required and actual pension contribution. The annual required pension contribution was determined as part of an actuarial valuation at June 30, 2005, using the entry age actuarial valuation method. Significant actuarial assumptions used include (i) a 7.5 percent investment rate of return, (ii) projected salary increases of 4.5 percent to 8.3 percent per year, and (iii) cost-of-living adjustments at 2.5 percent per year. Assumption (ii) includes a wage inflation component of 4.5 percent.

City of Grosse Pointe Farms, Michigan

Notes to Financial Statements June 30, 2007

Note 7 - Retirement Plans (Continued)

The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a four-year period. The unfunded actuarial liability is being amortized as a level percent of payroll on a closed basis. The remaining amortization period is 10 years.

General Employees' Retirement System - For the fiscal year ended June 30, 2007, the City's annual pension cost of \$570,455 was equal to the required and actual pension contribution. The annual required pension contribution was determined as part of an actuarial valuation at June 30, 2005, using the entry age actuarial valuation method. Significant actuarial assumptions used include (i) a 7.5 percent investment rate of return, (ii) projected salary increases of 5.0 percent to 8.8 percent per year, and (iii) cost-of-living adjustments at varying percents depending on retirement date. Assumption (ii) includes a wage inflation component of 4.5 percent. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a four-year period. The unfunded actuarial liability is being amortized as a level percent of payroll on a closed basis. The remaining amortization period is 10 years. Employer contributions to the retirement systems for the year ended June 30, 2007 pertain to the funding of postretirement healthcare benefits.

	Fiscal Year Ended June 30		
	2005	2006	2007
General Employees' Retirement System:			
Annual pension costs (APC)	\$ 354,461	\$ 549,175	\$ 570,455
Percentage of APC contributed	100%	100%	100%
Net pension obligation	\$ -	\$ -	\$ -
Public Safety Retirement System:			
Annual pension costs (APC)	\$ -	\$ 56,424	\$ 212,680
Percentage of APC contributed	100%	100%	100%
Net pension obligation	\$ -	\$ -	\$ -

City of Grosse Pointe Farms, Michigan

Notes to Financial Statements June 30, 2007

Note 7 - Retirement Plans (Continued)

	Actuarial Valuation as of June 30		
	2004	2005	2006
General Employees' Retirement System:			
Actuarial value of assets	\$ 13,916,791	\$ 14,087,520	\$ 15,012,836
Actuarial accrued liability (AAL)	15,692,732	16,337,986	17,058,627
Overfunded (Unfunded) AAL (UAAL)	(1,775,941)	(2,250,466)	(2,045,791)
Funded ratio (percent)	88.7%	86.2%	88.0%
Covered payroll	\$ 3,022,261	\$ 2,953,576	\$ 3,050,954
UAAL as a percentage of covered payroll	58.8%	76.2%	67.1%
Public Safety Retirement System:			
Actuarial value of assets	\$ 24,902,998	\$ 24,716,840	\$ 25,271,184
Actuarial accrued liability (AAL)	20,774,538	21,729,319	22,405,595
Overfunded AAL	4,128,460	2,987,521	2,865,589
Funded ratio (percent)	119.9%	113.7%	112.8%
Covered payroll	\$ 2,468,182	\$ 2,568,917	\$ 2,605,573
UAAL as a percentage of covered payroll	N/A	N/A	N/A

Reserves - As of June 30, 2007, the plans' legally required reserves have been fully funded as follows:

	General Employees' Retirement System	Public Safety Retirement System	Total
Reserve for employees' contributions	\$ 2,718,431	\$ 2,266,310	\$ 4,984,741
Reserve for employers' contributions	8,031,037	13,702,028	21,733,065
Reserve for retired benefit payments	6,802,079	13,028,828	19,830,907
Total reserve for pension benefits	17,551,547	28,997,166	46,548,713
Reserve for health benefits	626,681	2,840,822	3,467,503
Total	\$ 18,178,228	\$ 31,837,988	\$ 50,016,216

City of Grosse Pointe Farms, Michigan

Notes to Financial Statements June 30, 2007

Note 7 - Retirement Plans (Continued)

Statement of Net Assets

	Pension Trust Funds		
	General Employees' Retirement System	Public Safety Retirement System	Total
Assets			
Cash and cash equivalents	\$ 92,612	\$ 233,919	\$ 326,531
Investments:			
Common stock	124,032	233,432	357,464
Mutual funds	17,948,041	31,333,213	49,281,254
Receivables:			
Interest	45,624	79,579	125,203
Other	16,332	18,323	34,655
Due from other governmental units	-	230	230
Total assets	18,226,641	31,898,696	50,125,337
Liabilities			
Accounts payable	7,545	13,602	21,147
Due to other governmental units	40,868	47,106	87,974
Total liabilities	48,413	60,708	109,121
Net Assets - Held in trust for pension and other employee benefits	<u>\$ 18,178,228</u>	<u>\$ 31,837,988</u>	<u>\$ 50,016,216</u>

City of Grosse Pointe Farms, Michigan

Notes to Financial Statements June 30, 2007

Note 7 - Retirement Plans (Continued)

Statement of Changes in Net Assets

	General Employees' Retirement System	Public Safety Retirement System	Total
Additions			
Investment income:			
Interest and dividends	\$ 621,220	\$ 1,103,533	\$ 1,724,753
Net increases to fair market value	2,105,431	3,745,758	5,851,189
Net investment income	2,726,651	4,849,291	7,575,942
Contributions:			
Employer	763,078	345,708	1,108,786
Employee	137,090	138,521	275,611
Total additions	3,626,819	5,333,520	8,960,339
Deductions			
Benefit payments	883,146	1,102,963	1,986,109
Health benefits	123,935	132,280	256,215
Refunds to withdrawing members	14,723	148,944	163,667
Administrative expenses	44,203	73,242	117,445
Total deductions	1,066,007	1,457,429	2,523,436
Net Increase	2,560,812	3,876,091	6,436,903
Net Assets Held in Trust for Pension Benefits			
Beginning of year	15,617,416	27,961,897	43,579,313
End of year	<u>\$ 18,178,228</u>	<u>\$ 31,837,988</u>	<u>\$ 50,016,216</u>
Net Assets			
Reserved for Pension Benefits - Beginning of year	\$ 15,142,933	\$ 25,546,869	\$ 40,689,802
Net Increase	2,408,615	3,450,296	5,858,911
Reserved for Pension Benefits - End of year	<u>\$ 17,551,548</u>	<u>\$ 28,997,165</u>	<u>\$ 46,548,713</u>
Reserved for Postemployment Healthcare Benefits - Beginning of year	\$ 474,483	\$ 2,415,028	\$ 2,889,511
Net Increase	152,197	425,795	577,992
Reserved for Postemployment Healthcare Benefits - End of year	<u>\$ 626,680</u>	<u>\$ 2,840,823</u>	<u>\$ 3,467,503</u>

City of Grosse Pointe Farms, Michigan

Notes to Financial Statements June 30, 2007

Note 7 - Retirement Plans (Continued)

Upcoming Reporting Change - The Governmental Accounting Standards Board has recently released Statement No. 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any other postemployment benefits (other than pensions). The new rules will cause the government-wide financial statements to recognize the cost of providing retiree healthcare coverage over the working life of the employee, rather than at the time the healthcare premiums are paid. The new pronouncement is effective for the year ending June 30, 2009.

Required Supplemental Information

City of Grosse Pointe Farms, Michigan

Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended June 30, 2007

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Fund Balance - Beginning of year	\$ 4,167,449	\$ 4,167,449	\$ 4,167,449	\$ -
Resources (Inflows)				
Property taxes	9,578,453	9,619,153	9,618,172	(981)
Licenses and permits	279,200	259,800	260,824	1,024
State sources	807,100	792,100	821,740	29,640
Charges for services	1,237,100	1,246,400	1,268,890	22,490
Fines and forfeitures	419,000	328,000	334,208	6,208
Interest	345,000	445,000	494,517	49,517
Other	67,000	165,300	191,433	26,133
Total resources (inflows)	16,900,302	17,023,202	17,157,233	134,031
Charges to Appropriations (Outflows)				
General government	1,104,400	1,024,600	1,024,011	589
Public safety	4,644,628	4,508,308	4,385,382	122,926
Public works and streets	1,658,800	1,587,300	1,561,512	25,788
Public service	492,050	539,550	557,572	(18,022)
Municipal court	315,070	262,170	259,534	2,636
Recreation and culture	1,173,297	1,181,747	1,162,040	19,707
Other	2,014,666	2,003,166	1,997,665	5,501
Transfers to other funds	1,329,942	1,625,767	1,625,767	-
Total charges to appropriations (outflows)	12,732,853	12,732,608	12,573,483	159,125
Fund Balance - End of year	\$ 4,167,449	\$ 4,290,594	\$ 4,583,750	\$ 293,156

City of Grosse Pointe Farms, Michigan

Note to Required Supplemental Information June 30, 2007

Note - Stewardship, Compliance, and Accountability

Budgetary Information - Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for the General Fund and all Special Revenue Funds. All annual appropriations lapse at fiscal year end.

The budget document presents information by fund, function, department, and line item. The legal level of budgetary control adopted by the governing body is the line item detail level. A comparison of the budget to actual expenditures at the line item level is available from the City controller's office.

Encumbrances are not included as expenditures. The amount of encumbrances outstanding at June 30, 2007 has not been calculated. During the current year, the budget was amended in a legally permissible manner. The budget has been prepared in accordance with accounting principles generally accepted in the United States of America.

Excess of Expenditures Over Appropriations in Budgeted Funds - During the year, the City incurred expenditures that were in excess of the amounts budgeted, as follows:

	Amended Budget	Actual
General Fund - Public service - Tree maintenance	\$ 290,000	\$ 316,837

The variance is due to expenditures not amended for in the budget.

City of Grosse Pointe Farms, Michigan

Required Supplemental Information Pension System Schedule of Funding Progress June 30, 2007

The schedule of funding progress is as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Overfunded AAL (UAAL) (a-b)	Funded Ratio (Percent) (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll
General Employees' Retirement System						
06/30/01	\$ 15,030,637	\$ 12,277,957	\$ 2,752,680	122.4	\$ 2,766,275	-
06/30/02	14,823,722	13,004,279	1,819,443	114.0	2,784,696	-
06/30/03	14,317,582	13,854,511	463,071	103.3	2,949,385	-
06/30/04	13,916,791	15,692,732	(1,775,941)	88.7	3,022,261	58.8
06/30/05	14,087,520	16,337,986	(2,250,466)	86.2	2,953,576	76.2
06/30/06	15,012,836	17,058,627	(2,045,791)	88.0	3,050,954	67.1
Public Safety Retirement System						
06/30/01	27,487,631	17,616,822	9,870,809	156.0	1,994,776	-
06/30/02	27,121,390	18,632,029	8,489,361	145.6	2,299,362	-
06/30/03	25,935,581	20,050,945	5,884,636	129.3	2,377,414	-
06/30/04	24,902,998	20,774,538	4,128,460	120.0	2,468,182	-
06/30/05	24,716,840	21,729,319	2,987,521	113.7	2,568,917	-
06/30/06	25,271,184	22,405,595	2,865,589	112.8	2,605,573	-

City of Grosse Pointe Farms, Michigan

Required Supplemental Information Schedule of Employer Contributions June 30, 2007

General Employees' Retirement System

Fiscal Year Ended	Actuarial Valuation Date	Annual Required Contribution *	Percentage Contributed
06/30/00	6/30/98	\$ -	-
06/30/01	6/30/99	-	-
06/30/02	6/30/00	-	-
06/30/03	6/30/01	54,764	100%
06/30/04	6/30/02	172,278	100%
06/30/05	6/30/03	354,461	100%
06/30/06	6/30/04	549,175	100%
06/30/07	6/30/05	570,455	100%

* The additional contributions reflected in the financial statements were for healthcare benefits.

Public Safety Retirement System

Fiscal Year Ended	Actuarial Valuation Date	Annual Required Contribution *	Percentage Contributed
06/30/00	6/30/98	\$ -	-
06/30/01	6/30/99	-	-
06/30/02	6/30/00	-	-
06/30/03	6/30/01	-	-
06/30/04	6/30/02	-	-
06/30/05	6/30/03	-	-
06/30/06	6/30/04	56,424	100%
06/30/07	6/30/05	212,680	100%

* The contributions reflected in the financial statements were for healthcare benefits.

The information presented above was determined as part of the actuarial valuations at the dates indicated. Additional information as of June 30, 2006, the latest actuarial valuation date, follows:

General Employees' Retirement System

Actuarial cost method	Entry age
Amortization method	Level percent of payroll
Amortization period (perpetual)	20 years from July 1, 2006
Asset valuation method	4-year smoothed market value
Actuarial assumptions:	
Investment rate of return	7.5%
Projected salary increases*	5.0% - 8.8%
*Includes inflation at	4.5%
Cost of living adjustments	2.5% per year on the base retirement allowance (noncompounding) on January 1 after being retired six months. The maximum number of increases is 15.

City of Grosse Pointe Farms, Michigan

Required Supplemental Information Schedule of Employer Contributions (Continued) June 30, 2007

Group	Applicable to Retirements with an Effective Date on or After
Department heads	July 1, 1991
Clerical	July 1, 1991
Dispatchers	January 1, 1992

For retirees and beneficiaries on the rolls as of June 30, 1991, a minimum retirement allowance was established equal to \$25/month times the number of years of credited service. The \$25 amount was reduced for optional forms of payment.

For department head and clerical members who retire effective on or after July 1, 2000, the amount of pension and annuity payable shall be increased each January 1 after being retired six months by 2.50 percent, compounded, of the pension and annuity that would have been paid in the absence of cost of living adjustments.

Public Safety Retirement System

Actuarial cost method

Entry age

Amortization method

Level percent of payroll

Amortization period (perpetual)

10 years from July 1, 2006

Asset valuation method

4-year smoothed market value

Actuarial assumptions:

Investment rate of return

7.5%

Projected salary increases*

4.5% - 8.3%

*Includes inflation at

4.5%

Cost of living adjustments

For retirements effective on or after June 30, 1991, a minimum retirement allowance was established equal to \$25/month times the number of years of credited service. The \$25 amount was reduced for optional forms of payment.

For retirements effective on or after January 1, 1992, the amount of pension and annuity payable shall be increased by 2.50%, noncompounded, of the pension and annuity that would have been paid in the absences of cost of living adjustments. The maximum number of increases is 10.

Other Supplemental Information

City of Grosse Pointe Farms, Michigan

	Nonmajor Special Revenue		
	Major Streets	Local Streets	Community Development Block Grant
Assets			
Cash and investments	\$ 32,088	\$ 353,642	\$ -
Receivables	-	-	-
Accrued interest	-	91	-
Due from other funds	-	-	-
Due from other governmental units	65,071	26,199	-
Total assets	<u>\$ 97,159</u>	<u>\$ 379,932</u>	<u>\$ -</u>
Liabilities and Fund Balances			
Liabilities			
Accounts payable	\$ 3,852	\$ 11,379	\$ -
Accrued and other liabilities	577	4,399	-
Total liabilities	4,429	15,778	-
Fund Balances - Unreserved	92,730	364,154	-
Total liabilities and fund balances	<u>\$ 97,159</u>	<u>\$ 379,932</u>	<u>\$ -</u>

**Other Supplemental Information
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2007**

Funds		Nonmajor Debt Service Fund	Total Nonmajor Governmental Funds
Recycling Program	Budget Stabilization	Debt Service	
\$ 96,638	\$ -	\$ -	\$ 482,368
1,137	-	-	1,137
17,599	-	-	17,690
-	500,000	-	500,000
2,951	-	-	94,221
\$ 118,325	\$ 500,000	\$ -	\$ 1,095,416
\$ 8,272	\$ -	\$ -	\$ 23,503
-	-	-	4,976
8,272	-	-	28,479
110,053	500,000	-	1,066,937
\$ 118,325	\$ 500,000	\$ -	\$ 1,095,416

City of Grosse Pointe Farms, Michigan

	Special Revenue Funds				
	Major Streets	Local Streets	Community Development Block Grant	Recycling Program	Budget Stabilization
Revenue					
Federal sources	\$ -	\$ -	\$ 42,886	\$ -	\$ -
State sources	462,474	186,226	-	-	-
Charges for services	-	-	-	96,839	-
Interest income	4,432	11,702	-	3,572	-
Total revenue	466,906	197,928	42,886	100,411	-
Expenditures					
Current:					
Public works and streets	331,052	933,677	-	-	-
Public service	-	-	-	107,376	-
Other	-	-	42,886	-	-
Debt service	-	-	-	-	-
Total expenditures	331,052	933,677	42,886	107,376	-
Excess of Revenue Over (Under) Expenditures	135,854	(735,749)	-	(6,965)	-
Other Financing Sources (Uses)					
Transfers in	-	676,500	-	-	-
Transfers out	(180,000)	-	-	-	-
Total other financing sources (uses)	(180,000)	676,500	-	-	-
Net Change in Fund Balances	(44,146)	(59,249)	-	(6,965)	-
Fund Balances - Beginning of year	136,876	423,403	-	117,018	500,000
Fund Balances - End of year	<u>\$ 92,730</u>	<u>\$ 364,154</u>	<u>\$ -</u>	<u>\$ 110,053</u>	<u>\$ 500,000</u>

Other Supplemental Information
Combining Statement of Revenue, Expenditures, and Changes
in Fund Balances - Nonmajor Governmental Funds
Year Ended June 30, 2007

<u>Debt Service</u>	Total Nonmajor Governmental Funds
\$ -	\$ 42,886
-	648,700
-	96,839
-	19,706
<u>-</u>	<u>808,131</u>
-	1,264,729
-	107,376
-	42,886
<u>316,130</u>	<u>316,130</u>
<u>316,130</u>	<u>1,731,121</u>
(316,130)	(922,990)
316,130	992,630
<u>-</u>	<u>(180,000)</u>
<u>316,130</u>	<u>812,630</u>
-	(110,360)
-	1,177,297
<u>\$ -</u>	<u>\$ 1,066,937</u>

City of Grosse Pointe Farms, Michigan

Other Supplemental Information Budgetary Comparison Schedule - Nonmajor Special Revenue Funds Year Ended June 30, 2007

Major Streets

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Fund Balance - Beginning of year	\$ 136,876	\$ 136,876	\$ 136,876	\$ -
Resources (Inflows)				
State sources	405,000	400,000	462,474	62,474
Interest	500	3,500	4,432	932
Total resources (inflows)	542,376	540,376	603,782	63,406
Charges to Appropriations (Outflows)				
Public works and streets	362,000	353,200	331,052	22,148
Transfers to other funds	180,000	180,000	180,000	-
Total charges to appropriations (outflows)	542,000	533,200	511,052	22,148
Fund Balance - End of year	\$ 376	\$ 7,176	\$ 92,730	\$ 85,554

Local Streets

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Fund Balance - Beginning of year	\$ 423,403	\$ 423,403	\$ 423,403	\$ -
Resources (Inflows)				
State sources	160,000	160,000	186,226	26,226
Interest	1,000	6,000	11,702	5,702
Transfers from other funds	748,900	795,400	676,500	(118,900)
Total resources (inflows)	1,333,303	1,384,803	1,297,831	(86,972)
Charges to Appropriations (Outflows) -				
Public works and streets	909,900	961,400	933,677	27,723
Fund Balance - End of year	\$ 423,403	\$ 423,403	\$ 364,154	\$ (59,249)

City of Grosse Pointe Farms, Michigan

Other Supplemental Information Budgetary Comparison Schedule - Nonmajor Special Revenue Funds (Continued) Year Ended June 30, 2007

Community Development Block Grant

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Fund Balance - Beginning of year	\$ -	\$ -	\$ -	\$ -
Resources (Inflows) - Federal sources	65,698	65,698	42,886	(22,812)
Charges to Appropriations (Outflows) - Other	<u>65,698</u>	<u>65,698</u>	<u>42,886</u>	<u>22,812</u>
Fund Balance - End of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

City of Grosse Pointe Farms, Michigan

Other Supplemental Information Budgetary Comparison Schedule - Nonmajor Special Revenue Funds (Continued) Year Ended June 30, 2007

Recycling Program

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Fund Balance - Beginning of year	\$ 117,018	\$ 117,018	\$ 117,018	\$ -
Resources (Inflows)				
Charges for services	113,000	113,000	96,839	(16,161)
Interest	500	500	3,572	3,072
Total resources (inflows)	230,518	230,518	217,429	(13,089)
Charges to Appropriations (Outflows) -				
Public service	113,500	113,500	107,376	6,124
Fund Balance - End of year	<u>\$ 117,018</u>	<u>\$ 117,018</u>	<u>\$ 110,053</u>	<u>\$ (6,965)</u>

Budget Stabilization

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Fund Balance - Beginning of year	\$ 500,000	\$ 500,000	\$ 500,000	\$ -
Resources (Inflows)	-	-	-	-
Charges to Appropriations (Outflows)	-	-	-	-
Fund Balance - End of year	<u>\$ 500,000</u>	<u>\$ 500,000</u>	<u>\$ 500,000</u>	<u>\$ -</u>

City of Grosse Pointe Farms, Michigan

Other Supplemental Information Combining Statement of Net Assets Fiduciary Funds June 30, 2007

	Pension Trust Funds			Agency Funds
	General Employees' Retirement System	Public Safety Retirement System	Total	Tax Collection
Assets				
Cash and cash equivalents	\$ 92,612	\$ 233,919	\$ 326,531	\$ 82,314
Investments:				
Common stock	124,032	233,432	357,464	-
Mutual funds	17,948,041	31,333,213	49,281,254	-
Receivables:				
Interest	45,624	79,579	125,203	-
Other	16,332	18,323	34,655	-
Due from other governmental units	-	230	230	-
Total assets	18,226,641	31,898,696	50,125,337	<u>\$ 82,314</u>
Liabilities				
Accounts payable	7,545	13,602	21,147	\$ 21
Due to other governmental units	40,868	47,106	87,974	82,293
Total liabilities	48,413	60,708	109,121	<u>\$ 82,314</u>
Net Assets - Held in trust for pension and other employee benefits	<u>\$ 18,178,228</u>	<u>\$ 31,837,988</u>	<u>\$ 50,016,216</u>	

City of Grosse Pointe Farms, Michigan

Other Supplemental Information Combining Statement of Changes in Net Assets Fiduciary Funds Year Ended June 30, 2007

	General Employees' Retirement System	Public Safety Retirement System	Total
Additions			
Investment income:			
Interest and dividends	\$ 621,220	\$ 1,103,533	\$ 1,724,753
Net increases to fair market value	<u>2,105,431</u>	<u>3,745,758</u>	<u>5,851,189</u>
Net investment income	2,726,651	4,849,291	7,575,942
Contributions:			
Employer	763,078	345,708	1,108,786
Employee	<u>137,090</u>	<u>138,521</u>	<u>275,611</u>
Total additions	3,626,819	5,333,520	8,960,339
Deductions			
Benefit payments	883,146	1,102,963	1,986,109
Health benefits	123,935	132,280	256,215
Refunds to withdrawing members	14,723	148,944	163,667
Administrative expenses	<u>44,203</u>	<u>73,242</u>	<u>117,445</u>
Total deductions	<u>1,066,007</u>	<u>1,457,429</u>	<u>2,523,436</u>
Net Increase	2,560,812	3,876,091	6,436,903
Net Assets Held in Trust for Pension Benefits			
Beginning of year	<u>15,617,416</u>	<u>27,961,897</u>	<u>43,579,313</u>
End of year	<u>\$ 18,178,228</u>	<u>\$ 31,837,988</u>	<u>\$ 50,016,216</u>

City of Grosse Pointe Farms, Michigan

Other Supplemental Information Statement of Changes in Assets and Liabilities Agency Fund Year Ended June 30, 2007

	Balance June 30, 2006	Additions	Deductions	Balance June 30, 2007
<u>Tax Collection</u>				
Assets - Cash and cash equivalents	<u>\$ 210,051</u>	<u>\$ 34,623,658</u>	<u>\$ 34,751,395</u>	<u>\$ 82,314</u>
Liabilities - Due to other governmental units	<u>\$ 210,051</u>	<u>\$ 34,623,658</u>	<u>\$ 34,751,395</u>	<u>\$ 82,314</u>

Statistical Section

This part of the Comprehensive Annual Financial Report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the City's overall financial health.

The statistical section is organized into the following main categories:

- Financial trends
- Revenue capacity
- Debt capacity
- Demographic and economic information
- Operating information

Sources: Unless otherwise noted, the information in these schedules is derived from the Comprehensive Annual Financial Reports for the relevant year. The City implemented GASB Statement No. 34 in 2003; schedules presenting government-wide information include information beginning in that year.

Financial Trends

These schedules contain trend information to help the reader understand how the City's financial performance and well-being have changed over time.

City of Grosse Pointe Farms, Michigan

Net Assets by Component Last Five Fiscal Years (Accrual Basis of Accounting)

	June 30				
	2003	2004	2005	2006	2007
Governmental Activities					
Invested in capital assets - Net of related debt	\$ 15,701,000	\$ 16,485,000	\$ 17,585,000	\$ 17,642,000	\$ 17,475,000
Restricted	492,000	345,000	571,000	560,000	457,000
Unrestricted	<u>5,566,000</u>	<u>5,904,000</u>	<u>5,419,000</u>	<u>5,547,000</u>	<u>5,825,000</u>
Total net assets	<u>\$ 21,759,000</u>	<u>\$ 22,734,000</u>	<u>\$ 23,575,000</u>	<u>\$ 23,749,000</u>	<u>\$ 23,757,000</u>
Business-type Activities					
Invested in capital assets - Net of related debt	\$ 4,635,000	\$ 5,159,000	\$ 5,695,000	\$ 6,523,000	\$ 6,848,000
Restricted	21,000	10,000	-	-	-
Unrestricted	<u>1,257,000</u>	<u>1,052,000</u>	<u>1,128,000</u>	<u>994,000</u>	<u>1,235,000</u>
Total net assets	<u>\$ 5,913,000</u>	<u>\$ 6,221,000</u>	<u>\$ 6,823,000</u>	<u>\$ 7,517,000</u>	<u>\$ 8,083,000</u>
Primary Government in Total					
Invested in capital assets - Net of related debt	\$ 20,337,000	\$ 21,644,000	\$ 23,280,000	\$ 24,165,000	\$ 24,323,000
Restricted	513,000	355,000	571,000	560,000	457,000
Unrestricted	<u>6,822,000</u>	<u>6,956,000</u>	<u>6,547,000</u>	<u>6,541,000</u>	<u>7,060,000</u>
Total net assets	<u>\$ 27,672,000</u>	<u>\$ 28,955,000</u>	<u>\$ 30,398,000</u>	<u>\$ 31,266,000</u>	<u>\$ 31,840,000</u>

City of Grosse Pointe Farms, Michigan

Changes in Net Assets Last Five Fiscal Years (Accrual Basis of Accounting)

Changes in Governmental Net Assets

	Year Ended June 30				
	2003	2004	2005	2006	2007
Expenses					
General government	\$ 2,171,022	\$2,552,250	\$3,251,023	\$ 3,032,307	\$ 2,741,679
Municipal court	246,518	260,245	279,031	273,569	259,534
Public safety	3,899,790	4,465,538	4,607,276	4,755,663	4,936,706
Public works	3,130,507	3,028,574	2,919,866	3,282,469	3,694,198
Recreation and culture	1,015,596	1,157,937	1,234,323	1,700,773	1,807,819
Interest on long-term debt	14,976	4,305	35,908	260,050	268,800
Total governmental activities	10,478,409	11,468,849	12,327,427	13,304,831	13,708,736
Program Revenues					
Charges for services:					
Municipal court	131,037	150,907	144,116	167,030	115,937
Public safety	625,247	717,758	664,651	600,677	529,272
Public works	121,833	120,780	126,938	114,641	100,658
General government	142,428	125,513	192,795	293,764	331,962
Recreation and culture	248,167	271,122	272,274	406,907	456,257
Total charges for services	1,268,712	1,386,080	1,400,774	1,583,019	1,534,086
Operating grants and contributions	58,775	701,485	1,055,255	579,164	681,915
Total program revenue	1,327,487	2,087,565	2,456,029	2,162,183	2,216,001
Net Expense	(9,150,922)	(9,381,284)	(9,871,398)	(11,142,648)	(11,492,735)
General Revenues					
Property taxes	8,677,149	8,791,286	9,081,308	9,372,015	9,618,175
State-shared revenues	1,489,794	862,438	833,417	823,981	807,176
Interest	324,100	261,541	330,665	614,319	577,229
Franchise fees and other	620,878	560,250	587,675	626,305	618,108
Total general revenues	11,111,921	10,475,515	10,833,065	11,436,620	11,620,688
Transfers	(335,000)	(120,000)	(120,000)	(120,000)	(120,000)
Change in Net Assets	\$ 1,625,999	\$ 974,231	\$ 841,667	\$ 173,972	\$ 7,953

City of Grosse Pointe Farms, Michigan

Changes in Net Assets (Continued) Last Five Fiscal Years (Accrual Basis of Accounting)

Changes in Business-type Net Assets

	Year Ended June 30				
	2003	2004	2005	2006	2007
Operating Revenue					
Sale of water	\$ 1,152,639	\$ 1,070,940	\$ 1,093,009	\$ 1,240,062	\$ 1,174,041
Sewage disposal charges	1,546,323	1,498,476	1,512,239	1,754,014	1,671,636
Radio system charges	159,169	175,360	181,518	196,483	173,041
Other charges for services	525,243	473,974	546,129	667,958	644,975
Total operating revenue	3,383,374	3,218,750	3,332,895	3,858,517	3,663,693
Operating Expenses					
Cost of water produced/purchased	1,014,566	1,000,727	1,074,277	1,142,976	1,238,150
Cost of sewage treatment	1,754,262	1,922,395	1,791,876	2,108,862	1,901,285
Radio system costs	159,169	175,359	181,517	195,506	174,023
Billing and administrative costs	269,950	316,851	272,902	338,636	415,550
Depreciation	353,200	344,466	342,536	374,143	407,507
Total operating expenses	3,551,147	3,759,798	3,663,108	4,160,123	4,136,515
Operating Loss	(167,773)	(541,048)	(330,213)	(301,606)	(472,822)
Nonoperating Revenue (Expense)					
Property taxes	1,031,421	1,067,832	1,110,873	1,155,806	1,196,606
Investment income	69,772	50,066	68,086	99,206	70,661
Interest expense	(412,226)	(388,521)	(366,772)	(379,704)	(348,599)
Income - Before transfer from other funds	521,194	188,329	481,974	573,702	445,846
Transfers from Other Funds	335,000	120,000	120,000	120,000	120,000
Change in Net Assets	<u>\$ 856,194</u>	<u>\$ 308,329</u>	<u>\$ 601,974</u>	<u>\$ 693,702</u>	<u>\$ 565,846</u>

City of Grosse Pointe Farms, Michigan

Fund Balances of Governmental Funds Last Ten Fiscal Years (Modified Accrual Basis of Accounting)

	June 30									
	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
General Fund:										
Reserved	\$ 1,125,472	\$ 1,211,348	\$ 1,456,524	\$ 1,428,730	\$ 1,596,528	\$ 89,777	\$ 83,862	\$ 79,671	\$ 81,830	\$ 93,563
Unreserved	<u>931,103</u>	<u>1,295,058</u>	<u>1,430,279</u>	<u>2,437,322</u>	<u>2,278,866</u>	<u>3,549,122</u>	<u>3,795,455</u>	<u>3,994,044</u>	<u>4,085,619</u>	<u>4,490,187</u>
Total General Fund	2,056,575	2,506,406	2,886,803	3,866,052	3,875,394	3,638,899	3,879,317	4,073,715	4,167,449	4,583,750
All other governmental funds -										
Unreserved, reported in:										
Special Revenue Funds	516,357	686,473	868,164	962,776	809,916	1,006,457	997,804	1,205,267	1,177,296	1,066,937
Capital Project Funds	<u>637,364</u>	<u>569,241</u>	<u>1,081,148</u>	<u>1,753,055</u>	<u>2,399,893</u>	<u>1,422,592</u>	<u>1,372,717</u>	<u>940,695</u>	<u>1,089,101</u>	<u>898,647</u>
Total all other governmental funds	<u>1,153,721</u>	<u>1,255,714</u>	<u>1,949,312</u>	<u>2,715,831</u>	<u>3,209,809</u>	<u>2,429,049</u>	<u>2,370,521</u>	<u>2,145,962</u>	<u>2,266,397</u>	<u>1,965,584</u>
Total governmental funds	<u>\$ 3,210,296</u>	<u>\$ 3,762,120</u>	<u>\$ 4,836,115</u>	<u>\$ 6,581,883</u>	<u>\$ 7,085,203</u>	<u>\$ 6,067,948</u>	<u>\$ 6,249,838</u>	<u>\$ 6,219,677</u>	<u>\$ 6,433,846</u>	<u>\$ 6,549,334</u>

City of Grosse Pointe Farms, Michigan

Changes in Fund Balances of Governmental Funds Last Ten Fiscal Years (Modified Accrual Basis of Accounting)

	Year Ended June 30									
	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Revenue										
Property taxes	\$ 6,861,407	\$ 7,294,661	\$ 7,519,710	\$ 8,474,589	\$ 8,472,118	\$ 8,677,149	\$ 8,791,286	\$ 9,081,308	\$ 9,372,015	\$ 9,618,172
Licenses and permits	182,134	224,590	216,982	234,481	241,671	263,414	243,552	300,392	280,651	260,824
Federal sources	214,336	130,427	-	57,002	71,577	58,775	117,992	153,087	17,525	42,886
State sources	1,508,022	1,568,241	1,622,127	1,622,147	1,588,368	1,469,539	1,445,931	1,435,085	1,390,255	1,470,440
Special assessments	5,899	-	-	-	-	-	-	-	-	-
Charges for services	746,193	978,667	848,462	991,717	923,938	980,009	1,140,423	1,078,316	1,356,125	1,365,729
Fines and forfeitures	196,519	164,138	192,712	228,960	297,110	427,104	425,862	426,898	409,959	334,208
Cable T.V. sale proceeds	209,588	-	-	-	-	-	-	-	-	-
Interest	368,166	422,250	479,228	635,187	514,896	324,100	261,541	330,665	589,178	544,419
Other	482,081	194,088	146,381	105,113	131,466	223,779	133,229	482,794	162,589	191,866
Total revenue	10,774,345	10,977,062	11,025,602	12,349,196	12,241,144	12,423,869	12,559,816	13,288,545	13,578,297	13,828,544
Expenditures										
Current:										
General government	738,835	796,091	816,110	841,587	945,864	950,157	1,028,628	984,008	964,324	1,024,011
Municipal court	171,509	179,262	188,768	189,751	219,571	252,487	259,611	278,397	272,935	259,534
Public safety:										
Police, fire, and EMS	3,098,627	3,210,358	3,284,784	3,320,484	3,947,885	3,894,950	4,234,782	4,336,236	4,388,644	4,385,382
Building inspections	340,755	401,599	414,872	398,885	446,842	475,850	451,498	429,524	475,135	557,572
Public works and streets:										
Streets	850,337	661,297	676,475	1,183,620	813,985	919,161	990,101	717,164	1,040,304	1,264,729
Rubbish disposal and recycling	1,324,111	1,319,183	1,227,220	1,271,899	1,426,289	1,580,026	1,604,130	1,514,497	1,554,988	1,668,888
Other public works	-	-	-	6,182	-	-	-	-	-	-
Community and economic development	140,572	130,427	-	57,002	37,999	58,775	13,125	78,850	8,903	42,886
Recreation and culture	596,338	654,502	679,622	755,149	816,083	842,467	921,950	932,253	1,104,767	1,162,040
Other functions	1,019,856	857,089	928,738	785,595	1,367,813	1,450,551	1,240,531	1,485,057	1,687,616	1,997,665
Capital outlay	1,543,309	861,085	645,868	619,164	640,890	2,319,628	814,265	4,632,617	5,735,292	764,220
Debt service principal	445,000	740,000	540,000	560,000	585,000	535,000	555,000	90,000	-	46,875
Debt service interest	151,168	90,645	18,750	14,110	9,603	4,976	4,305	36,208	198,653	269,255
Total expenditures	10,420,417	9,901,538	9,421,207	10,003,428	11,257,824	13,284,028	12,117,926	15,514,811	17,431,561	13,443,057
Excess of Revenue Over (Under) Expenditures	353,928	1,075,524	1,604,395	2,345,768	983,320	(860,159)	441,890	(2,226,266)	(3,853,264)	385,487
Other Financing Sources (Uses)										
Debt issuance/refinanced	2,895,000	-	-	-	-	-	-	2,500,000	4,300,000	-
Refinanced notes	(2,295,000)	-	-	-	-	-	-	-	-	-
Debt premium or discount	-	-	-	-	-	-	-	(7,394)	37,433	-
Transfers in	1,204,698	1,367,713	1,538,582	2,070,910	2,175,500	2,112,677	1,335,570	1,974,708	2,262,719	1,535,767
Transfers out	(1,621,938)	(1,891,413)	(2,068,982)	(2,670,910)	(2,655,500)	(2,587,677)	(1,595,570)	(2,271,209)	(2,532,719)	(1,805,767)
Prior Period Adjustment (GASB No. 16)	-	-	-	-	-	317,904	-	-	-	-
Net Change in Fund Balances	536,688	551,824	1,073,995	1,745,768	503,320	(1,017,255)	181,890	(30,161)	214,169	115,487
Fund Balances - Beginning of year	2,673,608	3,210,296	3,762,120	4,836,115	6,581,883	7,085,203	6,067,948	6,249,838	6,219,677	6,433,846
Fund Balances - End of year	\$ 3,210,296	\$ 3,762,120	\$ 4,836,115	\$ 6,581,883	\$ 7,085,203	\$ 6,067,948	\$ 6,249,838	\$ 6,219,677	\$ 6,433,846	\$ 6,549,333

Revenue Capacity

These schedules contain information to help the reader assess the City's most significant local revenue source, the property tax.

City of Grosse Pointe Farms, Michigan

Property Tax Levies and Collections Last Ten Fiscal Years

Tax Year	Fiscal Year Ended June 30	Total Levy	Current Collections	Percent Collected	Delinquent Collections	Total Tax Collections	Percent of Levy Collected
1997	1998	\$ 6,600,853	\$ 6,496,864	98.42%	\$ 122,184	\$ 6,619,048	100.28%
1998	1999	7,116,065	6,986,343	98.18%	131,733	7,118,076	100.03%
1999	2000	7,489,783	7,195,336	96.07%	131,355	7,326,691	97.82%
2000	2001	8,565,252	8,433,696	98.46%	123,198	8,556,894	99.90%
2001	2002	9,012,152	8,864,391	98.36%	137,220	9,001,611	99.88%
2002	2003	9,468,734	9,279,094	98.00%	167,673	9,446,767	99.77%
2003	2004	9,608,324	9,434,739	98.19%	152,576	9,587,315	99.78%
2004	2005	10,154,372	9,946,298	97.95%	196,054	10,142,352	99.88%
2005	2006	10,224,520	9,894,046	96.77%	315,166	10,209,212	99.85%
2006	2007	10,476,529	10,196,966	97.33%	278,004	10,474,970	99.99%

City of Grosse Pointe Farms, Michigan

Assessed Taxable Values (History of Property Values) Last Ten Fiscal Years

Tax Year	Fiscal Year Ended June 30	Taxable Value by Property Type				Tax Rate (Mills)	Estimated Actual Value	Taxable
		Real Property		Personal Property	Total Value			Value as a
		Residential	Commercial					Percent of Actual
1997	1998	\$ 528,784,828	\$ 23,757,641	\$ 7,745,010	\$ 560,287,479	11.75	\$ 1,161,689,554	48.23%
1998	1999	547,170,140	24,406,904	7,518,690	579,095,734	12.25	1,244,392,280	46.54%
1999	2000	565,605,858	24,340,321	7,893,670	597,839,849	12.25	1,396,010,262	42.82%
2000	2001	589,242,723	24,687,716	7,990,500	621,920,939	13.75	1,607,321,800	38.69%
2001	2002	622,834,662	25,535,181	8,296,600	656,666,443	13.75	1,830,483,554	35.87%
2002	2003	654,917,727	26,307,567	7,980,300	689,205,594	13.75	1,968,040,336	35.02%
2003	2004	675,892,688	27,119,118	8,150,230	711,162,036	13.50	1,994,514,298	35.66%
2004	2005	704,378,778	28,808,986	8,111,800	741,299,564	13.375	2,004,236,600	36.99%
2005	2006	731,565,929	30,089,081	9,343,764	770,998,774	13.25	2,041,603,156	37.76%
2006	2007	760,270,755	31,461,585	8,261,000	799,993,340	13.125	2,052,746,562	38.97%

Note: Under Michigan law, the revenue base is referred to as "taxable value." This amount represents assessed value (50 percent of true cash value), limited for each property by the lower of 5 percent or inflation.

Taxes levied in a particular "tax year" become revenue of the subsequent fiscal year.

City of Grosse Pointe Farms, Michigan

Property Tax Rates Direct and Overlapping Governments Last Ten Fiscal Years

Tax Year	Millage Rates - Direct City Taxes				Overlapping Taxes						Total Tax Rate	
	General Operating	Debt	Special Purpose	Total Direct Taxes	County	Grosse Pointe Library	Community College	Intermediate School District	School Homestead	School Non-homestead	Homestead	Non-homestead
1997	11.7500	-	-	11.7500	8.5000	1.1600	1.2000	2.0000	13.9100	24.0000	38.5200	48.6100
1998	12.2500	-	-	12.2500	8.5000	1.1400	1.1500	2.0000	13.9500	24.0000	38.9900	49.0400
1999	12.2500	-	-	12.2500	8.4572	1.1400	1.1500	2.0000	13.7765	24.0000	38.7737	48.9972
2000	11.2500	1.5000	1.0000	13.7500	8.4039	1.5000	1.0000	1.9789	13.4234	23.8236	40.0562	50.4564
2001	11.2500	1.5000	1.0000	13.7500	8.3905	1.6321	2.4995	1.9753	13.1340	23.4207	41.3814	51.6681
2002	11.2500	1.5000	1.0000	13.7500	8.6390	1.6074	2.4862	3.4643	13.7291	24.2632	43.6760	54.2101
2003	11.0000	1.5000	1.0000	13.5000	8.6361	1.5829	2.4862	3.4643	13.0431	23.3187	42.7126	52.9882
2004	10.5750	1.5000	1.3000	13.3750	8.6354	1.5000	2.4844	3.4643	14.8384	25.1152	44.2975	54.5743
2005	10.4500	1.5000	1.3000	13.2500	8.6346	1.5000	2.4769	3.4643	14.5498	26.2851	43.8756	55.6109
2006	10.3500	1.5000	1.2750	13.1250	8.6266	1.5413	2.4769	3.4643	14.2741	26.2932	43.5082	55.5273

Note: Michigan law restricts the maximum millage that may be levied by the City without a vote of residents, as follows:

	General Operating	Debt	Special Purpose
2006	12.4813	no limit	2.7482

Source: Municipal Advisory Council of Michigan

City of Grosse Pointe Farms, Michigan

Principal Property Taxpayers (Major Taxpayers) Current Year and Nine Years Ago

Taxpayer	2006 Taxable Value	Percentage of Total	1997 Taxable Value	Percentage of Total	1997 Rank
Country Club of Detroit	\$ 6,211,477	0.78%	\$ 4,593,298	0.82%	1
Kercheval Development Co.	4,054,525	0.51%	399,254	0.07%	10
Soave, Anthony-Darlene	2,223,229	0.28%	1,311,408	0.21%	7
Premiere Equities GP, LLC	2,187,894	0.27%	1,436,286	0.22%	6
Ford, Mr.-Mrs. Edsel	2,171,766	0.27%	1,747,827	0.25%	3
Detroit Edison Co.	2,109,100	0.26%	1,960,380	0.28%	2
Ford, Elena/Rippolone, Joseph	1,870,468	0.23%	1,625,570	0.27%	4
Cracchiolo, Ray	1,786,546	0.22%	1,473,510	0.20%	5
Meathe, Cullan	1,611,200	0.20%	1,214,010	0.16%	8
M. R. Fisher Family Office	1,493,218	0.19%	913,230	0.11%	9

Debt Capacity

These schedules contain information to help the reader assess the affordability of the City's current levels of outstanding debt, and the City's ability to issue additional debt in the future.

City of Grosse Pointe Farms, Michigan

Ratios of Net General Bonded Debt Outstanding Last Ten Fiscal Years

Fiscal Year	General Obligation Bonds	Less Pledged Debt Service Funds	Net General Bonded Debt	Taxable Value	Debt as a Percentage of Taxable Value	Population	Debt per Capita
1998	\$ 735,000	\$ -	\$ 735,000	\$ 560,287,479	0.13%	10,092	\$ 72.83
1999	450,000	-	450,000	579,095,734	0.08%	10,092	44.59
2000	385,000	-	385,000	597,839,849	0.06%	10,092	38.15
2001	320,000	-	320,000	621,920,939	0.05%	9,764	32.77
2002	250,000	-	250,000	656,666,443	0.03%	9,764	25.60
2003	175,000	-	175,000	689,205,594	0.02%	9,764	17.92
2004	90,000	-	90,000	711,162,036	0.01%	9,764	9.22
2005	2,492,976	-	2,492,976	741,299,564	0.34%	9,764	255.32
2006	6,830,779	-	6,830,779	770,998,774	0.89%	9,764	699.59
2007	6,782,402	-	6,782,402	799,993,340	0.85%	9,764	694.63

City of Grosse Pointe Farms, Michigan

Ratios of Outstanding Debt by Type Last Ten Fiscal Years

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Governmental Activities										
General obligation bonds	\$ 735,000	\$ 450,000	\$ 385,000	\$ 320,000	\$ 250,000	\$ 175,000	\$ 90,000	\$ 2,492,976	\$ 6,830,779	\$ 6,782,402
Installment purchase agreements	2,550,000	2,170,000	1,770,000	1,350,000	915,000	465,000	-	-	-	-
Total	3,285,000	2,620,000	2,155,000	1,670,000	1,165,000	640,000	90,000	2,492,976	6,830,779	6,782,402
Business-type Activities										
General obligation bonds	-	-	10,782,526	10,784,930	10,387,334	9,984,738	9,572,142	10,645,332	10,192,958	9,764,653
Installment purchase agreements	-	-	-	128,000	96,000	32,000	-	-	-	-
Revenue bonds	625,000	550,000	475,000	400,000	300,000	200,000	100,000	-	-	-
Capital leases	-	-	-	-	1,011,410	779,901	534,709	-	-	-
Total	625,000	550,000	11,257,526	11,312,930	11,794,744	10,996,639	10,206,851	10,645,332	10,192,958	9,764,653
Total debt of the government	\$ 3,910,000	\$ 3,170,000	\$ 13,412,526	\$ 12,982,930	\$ 12,959,744	\$ 11,636,639	\$ 10,296,851	\$ 13,138,308	\$ 17,023,737	\$ 16,547,055
Taxable Value	\$ 560,287,479	\$ 579,095,734	\$ 597,839,849	\$ 621,920,939	\$ 656,666,443	\$ 689,205,594	\$ 711,162,036	\$ 741,299,564	\$ 770,998,774	\$ 799,993,340
Ratio of Total Debt to Taxable Value	0.70%	0.55%	2.24%	2.09%	1.97%	1.69%	1.45%	1.77%	2.21%	2.07%
Total Population	10,092	10,092	10,092	9,764	9,764	9,764	9,764	9,764	9,764	9,764
Total Debt Per Capita	\$ 387	\$ 314	\$ 1,329	\$ 1,330	\$ 1,327	\$ 1,192	\$ 1,055	\$ 1,346	\$ 1,744	\$ 1,695

City of Grosse Pointe Farms, Michigan

Direct and Overlapping Governmental Activities Debt June 30, 2007

Governmental Unit	Debt Outstanding	Estimated Percent Applicable	Estimated Share of Overlapping Debt
Wayne County	\$ 92,441,826	1.58%	\$ 1,460,581
Grosse Pointe School District	62,470,000	25.74%	16,079,778
Grosse Pointe Library	17,900,000	25.74%	4,607,460
Wayne County Community College	50,100,000	2.51%	1,257,510
Intermediate School District	-	0.00%	-
Total overlapping debt			23,405,329
Direct City debt			16,635,000
Total direct and overlapping debt			<u>\$ 40,040,329</u>

Source: Municipal Advisory Council of Michigan

City of Grosse Pointe Farms, Michigan

Legal Debt Margin Last Ten Fiscal Years

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Calculation of Debt Limit										
State equalized valuation	<u>\$580,844,704</u>	<u>\$622,196,140</u>	<u>\$698,005,131</u>	<u>\$803,660,900</u>	<u>\$915,241,777</u>	<u>\$984,020,168</u>	<u>\$997,257,149</u>	<u>\$1,002,118,300</u>	<u>\$1,020,801,578</u>	<u>\$1,026,373,281</u>
10% of taxable value	<u>\$58,084,470</u>	<u>\$62,219,614</u>	<u>\$69,800,513</u>	<u>\$80,366,090</u>	<u>\$91,524,178</u>	<u>\$98,402,017</u>	<u>\$99,725,715</u>	<u>\$100,211,830</u>	<u>\$102,080,158</u>	<u>\$102,637,328</u>
Calculation of Debt Subject to Limit										
Total debt	\$1,360,000	\$1,000,000	\$11,642,526	\$11,504,930	\$10,937,334	\$10,359,738	\$9,762,142	\$13,138,308	\$17,023,737	\$16,547,055
Less debt not subject to limit:										
Revenue bonds	625,000	550,000	475,000	400,000	300,000	200,000	100,000	-	-	-
Water Resources Commission or Court-ordered bonds	-	-	10,782,526	10,784,930	10,387,334	9,984,738	9,572,142	10,645,332	10,192,958	9,764,653
Net debt subject to limit	<u>\$735,000</u>	<u>\$450,000</u>	<u>\$385,000</u>	<u>\$320,000</u>	<u>\$250,000</u>	<u>\$175,000</u>	<u>\$90,000</u>	<u>\$2,492,976</u>	<u>\$6,830,779</u>	<u>\$6,782,402</u>
Legal Debt Margin	<u>\$57,349,470</u>	<u>\$61,769,614</u>	<u>\$69,415,513</u>	<u>\$80,046,090</u>	<u>\$91,274,178</u>	<u>\$98,227,017</u>	<u>\$99,635,715</u>	<u>\$97,718,854</u>	<u>\$95,249,379</u>	<u>\$95,854,926</u>
Net Debt Subject to Limit as % of Debt Limit	1.27%	0.72%	0.55%	0.40%	0.27%	0.18%	0.09%	2.55%	7.17%	7.08%

City of Grosse Pointe Farms, Michigan

Pledged Revenue Coverage Last Ten Fiscal Years

Water and Sewer Revenue Bonds							
Fiscal Year	Gross Revenues	Applicable Expenses	Net Revenues	Debt Service			Coverage
				Principal	Interest	Total	
1998	\$ 2,577,093	\$ 2,600,576	\$ (23,483)	\$ 75,000	\$ 38,763	\$ 113,763	(21%)
1999	2,808,237	2,556,575	251,662	75,000	34,344	109,344	230%
2000	3,136,004	2,744,140	391,864	75,000	41,904	116,904	335%
2001	2,972,025	2,978,925	(6,900)	75,000	27,188	102,188	(7%)
2002	3,027,640	2,504,654	522,986	100,000	21,825	121,825	429%
2003	3,224,205	3,038,778	185,427	100,000	9,425	109,425	169%
2004	3,047,364	3,239,973	(192,609)	100,000	3,150	103,150	(187%)
2005	3,187,862	3,139,055	48,807	100,000	3,150	103,150	47%
2006	3,744,986	3,590,474	154,512	-	-	-	-
2007	3,490,651	3,523,503	(32,852)	-	-	-	-

Demographics and Economic Information

These schedules offer demographics and economic indicators to help the reader understand the environment within which the City's financial activities take place.

City of Grosse Pointe Farms, Michigan

Demographic and Economic Statistics Last Ten Fiscal Years

Fiscal Year	Population	Personal Income (in thousands)	Per Capita Personal Income	Unemployment Rate
1998	10,092	\$ 384,586	\$ 38,108	<2%
1999	10,092	390,026	38,647	<2%
2000	10,092	393,285	38,970	<2%
2001	9,764	385,893	39,522	<2%
2002	9,764	391,361	40,082	<2%
2003	9,764	396,916	40,651	<2%
2004	9,764	402,540	41,227	<2%
2005	9,764	408,252	41,812	<2%
2006	9,764	414,706	42,473	<2%
2007	9,764	485,222	49,695	<2%

Sources:

(1) City of Grosse Pointe Farms

(2) United States Census Bureau - 2000 Census (last reported)

City of Grosse Pointe Farms, Michigan

Principal Employers (Major Employers) Last Fiscal Year and Nine Years Ago

		2007
Taxpayer		Employees
1	Bon Secours/Cottage Hospital	1,900
2	Grosse Pointe Schools	285
3	City of Grosse Pointe Farms	156
4	Country Club of Detroit	120
5	United States Post Office	102
6	Grosse Pointe Academy	72
7	St. Paul's Church/School	54
8	Kroger's Grocery Store	54
9	Village Market	39
10	Wendy's Restaurant	29
		2,811

Note: Current year total employment data and data from nine years earlier is not readily available.

Operating Information

These schedules contain service and infrastructure data to help the reader understand how the information in the City's financial report relates to the services the City provides and the activities it performs.

City of Grosse Pointe Farms, Michigan

Full-time Equivalent Government Employees by Function Last Ten Fiscal Years

Function/Program	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
General government	11.00	10.70	10.70	11.40	11.40	11.40	11.10	11.10	11.50	11.50
Public safety:										
Police	44.34	44.34	44.34	44.34	44.34	44.34	44.34	44.34	44.34	44.34
Fire and EMS	6.00	5.00	5.00	4.00	3.00	4.00	4.00	4.00	4.00	4.00
Building inspection	4.00	4.00	4.00	3.60	3.60	3.60	3.96	3.02	3.52	3.52
Radio system	2.00	2.00	2.00	2.00	2.00	1.00	1.00	1.00	1.00	1.00
Municipal court	4.25	3.25	3.25	3.25	3.00	3.20	3.60	3.60	3.60	3.60
Public works:										
DPW	27.89	27.89	27.89	27.89	27.89	27.89	30.72	30.72	30.72	30.72
Water and sewer	8.25	8.25	8.25	8.25	8.25	8.25	8.25	8.25	8.25	8.25
Parks and recreation	21.31	21.31	21.31	21.94	22.61	22.61	22.79	23.06	24.18	26.16
Total	<u>129.04</u>	<u>126.74</u>	<u>126.74</u>	<u>126.67</u>	<u>126.09</u>	<u>126.29</u>	<u>129.76</u>	<u>129.09</u>	<u>131.11</u>	<u>133.09</u>

Source: Various City of Grosse Pointe Farms departments

City of Grosse Pointe Farms, Michigan

Operating Indicators by Function Last Ten Fiscal Years

Function/Program	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Election data:										
Registered voters	8,846	9,045	7,660	8,557	8,354	7,809	8,163	8,282	7,812	7,860
Voters (at the polls or absentee)	2,544	5,252	1,335	6,434	3,171	5,274	2,788	6,656	987	5,507
Percent voting	29%	58%	17%	75%	38%	68%	34%	80%	13%	70%
Municipal Court - Number of court cases	5,689	4,184	5,410	7,503	8,520	11,000	8,141	6,156	5,908	5,977
Police:										
Physical arrests	148	150	172	218	311	333	359	400	357	439
Investigations	5,987	5,789	5,956	6,164	6,334	6,114	5,972	6,093	6,025	5,455
Fire:										
Fire runs	114	131	102	97	122	86	116	108	116	168
Emergency medical runs	374	414	441	457	400	342	369	402	376	367
Inspections	220	240	240	234	253	258	227	285	282	272
Public works:										
Miles of street resurfaced	2.63	1.43	1.07	0.50	-	2.00	1.19	-	-	2.96
Refuse collected (tons)	N/A	N/A	N/A	N/A	8,254	8,618	9,055	8,670	7,989	8,435
Parks and recreation:										
Recreation program attendance	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	542	1,140
Vehicles entering Pier Park	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	151,422	110,566
Water:										
Number of customers billed	4,090	4,081	4,096	4,093	4,094	4,098	4,100	4,102	4,099	4,094
Total consumption (thous. cu. ft.)	77,722	85,775	85,557	74,096	76,942	82,958	74,100	72,075	83,417	73,115
Avg. consumption per user	19.00	21.02	20.89	18.10	18.79	20.24	18.07	17.57	20.35	17.86

Source: Various City of Grosse Pointe Farms departments

City of Grosse Pointe Farms, Michigan

Capital Asset Statistics by Function Last Ten Fiscal Years

Function/Program	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Police:										
Stations	1	1	1	1	1	1	1	1	1	1
Patrol units	6	6	6	6	6	6	6	6	6	7
Fire:										
Stations	1	1	1	1	1	1	1	1	1	1
Fire response vehicles	3	3	3	3	3	3	3	3	3	3
Public works:										
Streets (miles):										
Major streets	11.18	11.18	11.18	11.18	11.18	11.18	11.18	11.18	11.18	11.18
Local streets	26.91	26.91	26.91	26.91	26.91	27.07	27.07	27.07	27.07	27.07
Sidewalks	74.28	74.28	74.28	74.28	74.28	74.59	74.59	74.59	74.59	74.59
Streetlights	954	954	954	954	954	954	954	954	954	954
Traffic signals	22	22	22	22	22	23	23	23	23	23
Refuse collection trucks	7	7	7	7	7	8	8	8	8	8
Parks and recreation:										
Acreage	20.67	20.67	20.67	23.26	23.26	23.26	23.26	23.26	23.26	23.26
Developed parks/playgrounds	2	2	2	2	2	2	2	2	2	2
Developed fields (soccer, baseball, etc.)	3	3	3	4	4	4	4	4	4	4
Harbor boat wells	291	291	291	291	291	291	291	291	333	333
Water:										
Mains (miles)	42.34	42.34	42.34	42.34	42.34	42.34	42.34	42.34	42.59	42.59
Fire hydrants	500	500	500	500	500	500	500	500	502	502
Storage capacity - Millions of gallons	2.50	2.50	2.50	2.50	2.50	2.50	2.50	2.50	2.50	2.50
Sewer:										
Miles of sanitary sewers	3	3	3	18	18	18	18	18	18	18
Miles of storm sewers	3	3	3	18	18	18	18	18	18	18
Miles of combined sanitary and storm	36	36	36	21	21	21	21	21	21	21

Source: Various City of Grosse Pointe Farms departments

December 20, 2007

To the Honorable Mayor
and Members of the City Council
City of Grosse Pointe Farms
90 Kerby Road
Grosse Pointe Farms, MI 48236

Dear Mayor and Council Members:

We have recently completed our audit of the financial statements of the City of Grosse Pointe Farms for the year ended June 30, 2007. We offer the following items of an informational nature for your consideration as the policy-making body of the City:

Report on Internal Controls

Beginning with this year's audit, national auditing standards now call for auditors to communicate matters to the governing body that may be useful to you in your oversight of the City's financial management. Specifically, they require us to report internal control issues to you that that may be relatively minor, in order to allow you to evaluate their significance and make any changes you may deem appropriate. The purpose of these new standards is to allow you an opportunity to discuss issues when they are relatively minor, rather than waiting until they become more serious problems.

We hope this new communication will be helpful to you, and we look forward to being able to discuss any questions you may have concerning these issues.

In planning and performing our audit of the financial statements of the City of Grosse Pointe Farms as of and for the year ended June 30, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered the City's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified deficiencies in internal control that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. We believe the following items constitute significant deficiencies.

Bank Transfers

Bank transfers are currently initiated and approved by a single person. Although financial institutions will typically only make transfers between authorized accounts, we believe that all wire transfer requests should require bank validation by a second member of city management.

Adjusting Entry

During the course of our audit, we noted a single adjusting journal entry from the June 30, 2006 audit which was not posted to the general ledger. We recommend that at the conclusion of the audit period, the reported fund balance of all City funds be reconciled to the year-end financial statement.

Compensated Absences

The long-term liabilities related to compensated absences were adjusted to accommodate for vacation time earned between January 1, 2007 to June 30, 2007. Although this vacation balance is not eligible to be taken until 2008, the related commitment required recognition.

Debt Defeasance

During the course of our audit, adjustments were made to properly reflect the advance refunding of a portion of the 2000 General Obligation (Lakeside Sewer Separation) bonds which incurred during fiscal year 2007.

The following are other matters we want to bring to your attention.

Overview of the City's Financial Condition

During the year ended June 30, 2007, the financial condition of the City improved as revenue exceeded expenditures by \$416,301 in the General Fund, the City's primary operating fund. Fund balance in the General Fund totaled \$4,583,750, with \$93,563 reserved for prepaid items and inventory, and \$2,042,035 being designated for future capital projects. While the increase in fund balance strengthens the General Fund's positive fiscal position, we again encourage the City to monitor and maintain adequate fund balance reserves. By maintaining an adequate fund balance, the City is able to adjust to financial changes without the need for drastic reactions to adverse circumstances.

Funding of Postemployment Benefit Obligations

As indicated in the last three years' letters to Council, the Governmental Accounting Standards Board has issued Statement Number 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions (GASB 45)*. This pronouncement provides guidance for local units of government in recognizing the cost of retiree healthcare benefits. The intent of the new rules is to recognize the cost of providing retiree healthcare coverage over the working life of the employee, rather than at the time the healthcare premiums are paid. For many communities, the funding of postemployment benefits is the most significant financial challenge they will face in coming years. To date, the City has been proactively funding a portion of the total postemployment benefit liability; however, GASB 45 will require increased annual funding requirements beginning with the City's 2008-2009 fiscal year. We encourage the City's audit committee to meet with the City's actuary to discuss GASB 45 and its impact on annual postretirement healthcare funding.

New Auditing Standards

Major and comprehensive changes were recently made to auditing rules that will impact the City's audits beginning next year. These new auditing standards require significant changes in how audits are done and how the results of the auditor's work are communicated to clients, bringing auditing rules governmental units into closer alignment with the standards imposed on audits of public companies under Sarbanes-Oxley.

These new rules, which are known collectively as the Risk Assessment Standards, require auditors to:

- More thoroughly examine and evaluate clients' accounting processes and controls, including the overall control environment, key controls over significant transactions, and the quality of internal oversight of the financial reporting process
- More thoroughly assess and document conditions in clients' systems and processes that create risks of material misstatement in their financial statements, and perform additional testing in response to these risks
- Design and perform more analytical tests of accounting and financial data

- Apply more stringent standards in identifying, assessing, and communicating internal control deficiencies
- Communicate more information about the results of the auditor's work to individuals involved in overseeing strategic direction and accountability for operations

As a practical effect of these new rules, auditors will need to make more detailed and specific requests for information from clients, particularly about processes and controls, and clients will need to do more work to be well prepared for their audits. The new rules also will require increased audit testing and more thorough auditing procedures, and will increase the amount of related documentation that auditors must prepare and maintain.

Plante & Moran, PLLC began analyzing these new standards and incorporating the necessary changes into our audit process and tools more than a year ago. It is clear that the new rules will require us to perform more audit procedures than we have in the past. Our firm has invested heavily to implement our new audit methodology and train our staff on these changes and will continue to do so over the next several months. Our goal is to have our staff trained and working with our clients to prepare for the transition to these new rules well in advance of the required implementation date.

As we move forward, we will be communicating more specifically about how these matters will affect the City's next financial statement audit. In addition, we plan to begin to work with the City's staff during the upcoming year in a number of areas, including review and documentation of internal accounting procedures and controls, to ensure a smooth transition to these new standards.

The primary objective of these new rules is to strengthen and enhance the independent audit of financial statements, including more thorough evaluation and information about the City's internal accounting and financial reporting processes and controls. We believe that these new rules, and the additional communications the board will receive from us about the results of our audit work, will enhance the value received from the financial statement audit.

Pier Park Accounting Procedures

During the current year audit, we performed control procedure testing at Pier Park. Regarding those procedures, we offer the following comments:

- A comprehensive analysis to validate the harbor well rates (including both direct and indirect costs) has not been performed since 2004. We recommend that the City conduct an analysis to support the appropriateness of the current fee structure.
- At times, manual cash receipts are utilized at Pier Park. A complete numeric listing of all receipts issued should be provided to the finance department as part of the cash receipt report. In addition, original voided receipts should also be forwarded to the finance department as well.

To the Honorable Mayor
and Members of the City Council
City of Grosse Pointe Farms

5

December 20, 2007

- Pier Park sends out invoices to residents for amounts due related to the well rentals. Copies of these invoices should be forwarded to the finance department in order for the receivable balance to be properly recorded in the general ledger. Furthermore, the balance of amounts owed to Pier Park should be reconciled against the general ledger balance monthly.
- Certain Pier Park programs permit for fee payments to be made at the start of the event. We recommend that manual receipts be issued by Pier Park staff during these events.
- We recommend that periodic surprise petty cash counts be performed by the City's finance department. The results of these procedures should be documented and maintained.
- Annually, we recommend that the City's finance department perform and retain an analytic validation of the well revenue reported by Pier Park.

This communication is intended solely for the information and use of management, the board, and others within the City and is not intended to be and should not be used by anyone other than these specified parties.

We would like to thank the city, staff, and administration for the courtesy and cooperation extended to us during this audit. We would be happy to answer any questions you may have regarding the annual financial report, and would be pleased to discuss the above comments and recommendations with you at your convenience.

Very truly yours,

Plante & Moran, PLLC

A handwritten signature in black ink, appearing to read "Mark R. Hurst", with a stylized flourish at the end.

Mark R. Hurst